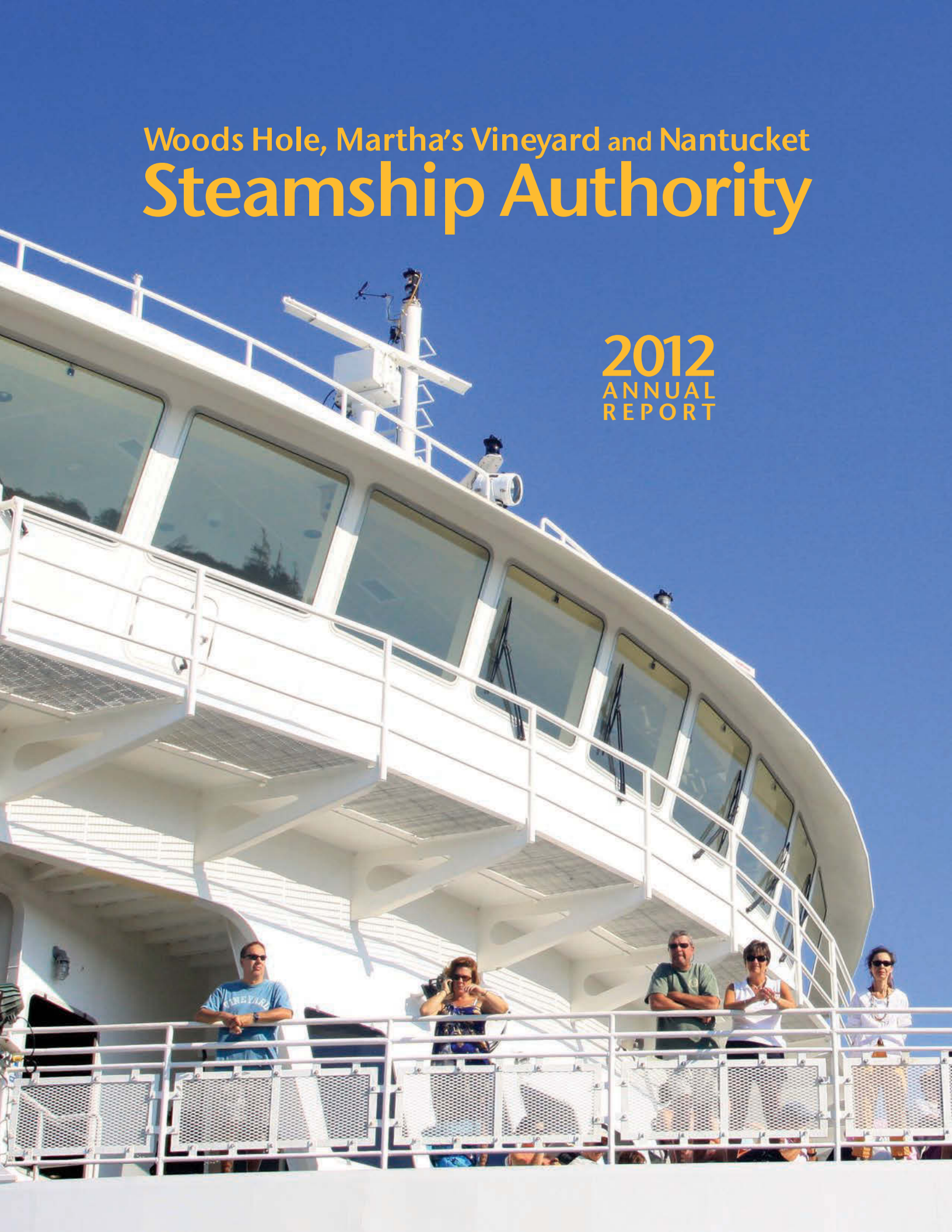
Woods Hole, Martha's Vineyard and Nantucket

Steamship Authority

2012 ANNUAL REPORT



The Steamship Authority

In Memoriam

H. Flint Ranney

It was with great sadness that we learned in December that H. Flint Ranney, the Authority's Nantucket Member since 2004, had passed away. Flint served on the Authority's Finance Advisory Board from January to November 2002, the Authority's Port Council from November 2002 to August 2004, and then as Nantucket's representative to the Authority for more than eight years.

During Flint's tenure, he personally contributed to various initiatives, including numerous customer service improvements for Nantucket residents and visitors, as well as many major capital improvements, including the construction of the Authority's new and improved high-speed passenger ferry, *M/V Iyanough*; the refurbishments of the *M/V Nantucket* and *M/V Eagle*; and the slip improvements at the Hyannis terminal.

Flint will be most remembered, however, for his efforts to have the *S/S Nobska's* steam whistle installed on the *M/V Eagle* in 2006. (The *S/S Nobska* provided service on the Martha's Vineyard and Nantucket routes for almost 50 years, from 1925 to 1973.) Because of Flint's efforts, Nantucket residents and visitors will continue to enjoy the sound of the *S/S Nobska* whistle with fond memories for many years to come.

We will miss Flint's wit, wisdom, and deep humanity.

Authority Members - 2012

John A. Tierney
NEW BEDFORD
CHAIRMAN

H. Flint Ranney
NANTUCKET
VICE CHAIRMAN
(Deceased)

Robert L. O'Brien
BARNSTABLE
SECRETARY

Marc N. Hanover
MARTHA'S VINEYARD

Robert S. Marshall
FALMOUTH

To: His Excellency, the Governor
To: The Members of the General Court

The 2012 Annual Report of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority is respectfully submitted in accordance with Section 13 of Chapter 701 of the Acts of 1960, as amended by Chapter 276 of the Acts of 1962.

Sincerely,

Robert F. Ranney
Nantucket
Chairman, 2013

Port Council Members - 2012

S. Eric Asendorf - Falmouth, Chairman
Robert R. Jones - Barnstable, Vice Chairman
George J. Balco - Tisbury, Secretary
Frank J. Rezendes - Fairhaven
Nathaniel E. Lowell - Nantucket
Edward C. Anthes-Washburn - New Bedford
Robert V. Huss - Oak Bluffs

Wayne C. Lamson - General Manager
Robert B. Davis - Treasurer/Comptroller
Steven M. Sayers - General Counsel

Woods Hole, Martha's Vineyard and Nantucket

Steamship Authority

2012 ANNUAL REPORT

THE STEAMSHIP AUTHORITY 2012 OVERVIEW . . . . . 4 - 9

TRAFFIC STATISTICS . . . . . 10 - 12

INDEPENDENT AUDITORS' REPORT . . . . . 14 - 15

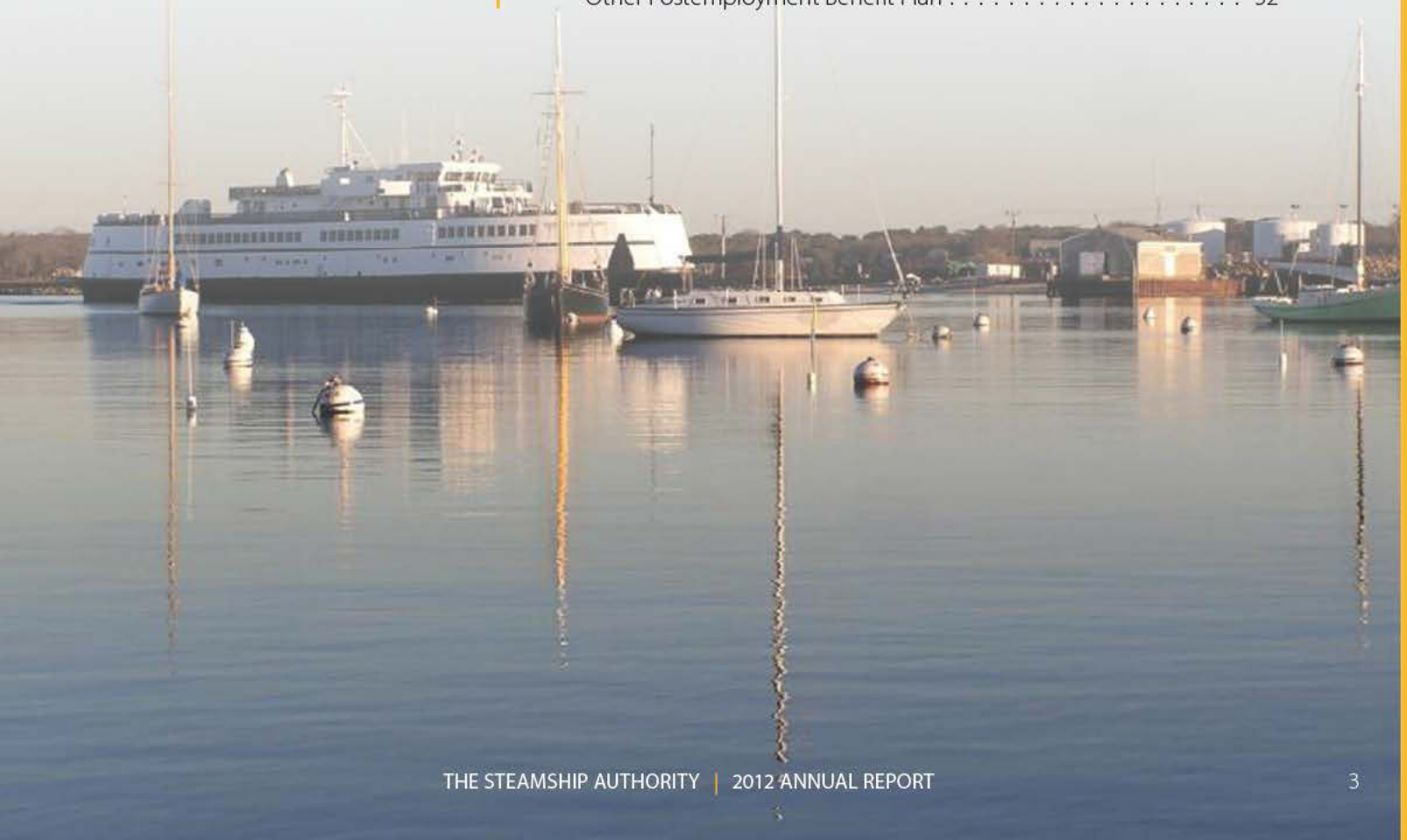
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) . . . . . 16 - 27

FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011:

- Statements of Net Assets . . . . . 28 - 29
- Statements of Revenues, Expenses, and Changes in Net Assets . . . 30
- Statements of Cash Flows 31
- Notes to Financial Statements . . . . . 32 - 50

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):

- Schedule of Funding Progress of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Pension Plans 51
- Schedule of Funding Progress of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority Other Postemployment Benefit Plan 52



The Steamship Authority 2012 Overview

The Steamship Authority completed another successful year of providing safe and reliable service for the islands of Martha's Vineyard and Nantucket.

The Authority carried more than 2,800,000 passengers between the mainland and the islands of Martha's Vineyard and Nantucket in 2012, a 3.4% increase over the previous year. Ridership on the Authority's high-speed passenger ferry between Hyannis and Nantucket increased 20% over the number of passengers carried on the *M/V Iyanough* in 2011. Close to 450,000 automobiles and 154,000 trucks were carried on both routes combined in 2012. These year-end totals represent a 2.3% increase in the number of automobiles carried and a 0.4% decrease in the number of trucks carried compared to the previous year.

The Authority's net operating income in 2012 was $2,780,196, which was $1,394,989 lower than the previous year and $20,728 lower than the amount projected in the 2012 Operating Budget. Operating revenues in 2012 totaled $85,372,258, a 2.5% increase over the previous year. The Authority's 2012 operating expenses totaled $80,800,397, a 4.4% increase over 2011. Fixed charges, net of other income, totaled $1,791,665 in 2012, which resulted in the net income from operations totaling $2,780,196 for the year. It was the 50th consecutive year without a deficit assessment on the taxpayers of the Authority's port communities. A more detailed analysis of the Authority's financial statements is included in the Management's Discussion and Analysis section of this report.

Oak Bluffs Pier Damage

The pier at the Authority's Oak Bluffs terminal sustained considerable damage from Hurricane Sandy, including piles that no longer supported the structure, split stringers, destroyed decking, and damage to the transfer bridge and electrical system connections.

In an effort to minimize damage to the pier during similar severe weather events in the future, the repair work planned for the pier will replace the wooden piles and pile caps with steel piles and pile caps.

In December 2012, President Barack Obama issued a Major Disaster Declaration, in response to Governor Deval Patrick's request, which will allow the Authority to apply for federal funds for the cost of the storm-related repairs. The Authority is eligible to be reimbursed for 75% of the cost of those repairs and 100% of the cost of its mitigation measures, such as replacing timber piles and pile caps with steel piles and pile caps, which will reduce or eliminate the threat of similar damage in the future.

The Authority has awarded contracts totaling $1,879,370 to repair the damaged pier. The repair work is expected to be completed in time for the terminal's re-opening for the summer season on May 16, 2013.

M/V Eagle Mid-Life Refurbishment

In the spring of 2012, the Authority completed the mid-life refurbishment of the *M/V Eagle*. The project was undertaken in two phases, with the first phase completed at Colonna's Shipyard in Norfolk, Virginia, in 2011 and the second phase at Thames Shipyard in New London, Connecticut, in 2012.

The project included a complete sandblasting and recoating of all exterior surfaces, replacement of all exterior windows, installation of a new marine evacuation slide system, and the complete replacement of the joiner work, decking, and seating on the vessel's passenger deck. The final cost of the project was $9,466,433, including the cost of engineering and design, owner-supplied materials, and construction oversight by Authority personnel.

New Bedford–Martha's Vineyard Freight Service

In July 2012, Fred LaPiana, Tisbury's Director of Public Works, reported on the efforts being made by the Towns of Tisbury and Oak Bluffs on Martha's Vineyard to transport and dispose of their refuse by barge. A study was performed on the feasibility of establishing a containerized service between New Bedford and Martha's Vineyard, which indicated that the Towns should be able to transport their rubbish to New Bedford less expensively by barge than by sending it in trucks on the Authority's boats if they could transport at least 18 containers per barge. Mr. LaPiana stated that if the Towns compressed and baled their rubbish, depending on how it is done, they might not need containers at all, and that the numbers were already compelling. Baling the trash would only make those numbers even better. Mr. LaPiana also noted

Freight Service
…continued

that if the operation is a success on this smaller scale, the Towns would then look toward including the other four Towns on the Vineyard in this operation.

Rescue by the Crew of the *M/V Gay Head*

On August 12, 2012, the crew of the *M/V Gay Head* responded to an urgent marine information broadcast regarding a fishing vessel taking on water in Nantucket Sound approximately 12 miles north of Nantucket. Captain Raymond Oliver and his crew, consisting of Pilot/Mate Bernadino Ramos; Ordinary Seamen Shawn Pimental, John McDonough, and Benjamin Burlos; and also Chief Engineer Maureen Glennon and Oiler Antonio Ferreira, launched their rescue boat and pulled three fishermen from the sinking vessel within 15 minutes of arriving on the scene.

In a letter to Captain Oliver, U.S. Coast Guard Captain Verne Gifford, Commander of Sector Southeastern New England, acknowledged and commended "the swift actions, sound judgment and expert seamanship of Captain Oliver and his crew" in responding to the distress call.

They are all to be congratulated for doing such an outstanding job in responding and rescuing the three fishermen before their vessel sank.

Online Merchandising Program

In December 2012, the Authority launched a new online merchandising store, where customized products like canvas bags, ties, tumblers, wood keepsake boxes, and crystal decanters featuring the Authority's vessels are available for sale. The merchandise is designed in two styles (one for Martha's Vineyard and one for Nantucket) and is available for sale 24 hours a day, seven days a week through the Authority's website, SteamshipAuthority.com.

50 Bernard St. Jean Drive

In December 2012, the Authority purchased the property located at 50 Bernard St. Jean Drive, Falmouth, for use as the future site of the Authority's bus maintenance facility. The property, which consists of a 5,000 square-foot industrial building on a 4.3-acre site, is located next to the 18.6-acre property that the Authority is purchasing from The Four Stones, LLC and Acme Precast Co. Inc. for the construction of a consolidated off-site parking lot off Thomas B. Landers Road. The Authority's current bus maintenance facility will be relocated from the Authority's Palmer Avenue parking lot. The relocation of the bus maintenance facility, along with the previous acquisition of the former Falmouth Youth Hockey League property, including the demolition of the old ice arena, is expected to provide up to 500 additional parking spaces at the Palmer Avenue parking lot.

Safety and Training

In 2006, the Authority initiated a five-day basic safety training program for all of its vessel employees. Although the U.S. Coast Guard does not require the Authority to provide this training, all of our vessel employees have been through this program at least once and the Authority continues to provide retraining on a rotating basis. Approximately 60 vessel employees are assigned to the U.S. Coast Guard–approved basic safety training program each year for one week at the Massachusetts Maritime Academy. This advanced maritime safety training program includes personal survival skills, safety, firefighting, first aid, and CPR.

Emergency Transportation Policy

The Authority revised its emergency transportation policy to ensure that it is being used only for the purposes for which it was adopted, namely, for people with genuine medical emergencies. An ambulance or a customer's vehicle will continue to be boarded on a preferential basis when it needs to be transported from the island to the mainland without delay for emergency medical care that is not available on the island.

In addition, the vehicles of customers traveling on standby for medical reasons will also continue to be boarded ahead of the vehicles of other standby customers when either (1) there is an urgent need to travel without additional delay because the customers are in severe pain, distress, or discomfort; or (2) the failure to provide preferential boarding would create the potential for deterioration or instability in the customers' physical condition or would otherwise jeopardize their care. Customers will be required to provide written verification from their physicians or health care providers of their urgent need to travel on the Authority's ferry without delay.

The determination of whether a customer's vehicle should receive preferential boarding will be made by the Mashpee reservations supervisor when the request is made during regular business hours or by the terminal agent when the reservations supervisor is not available.

Customers with vehicle reservations who are "bumped" so that ambulances and other vehicles may travel without delay are not only entitled to a refund of their one-way fare but are also boarded on the next available ferry at no charge.

Embarkation Fees

On behalf of its port communities, the Authority collected town-imposed ferry embarkation fees totaling $918,001 from passengers traveling on its vessels during 2012.

A state law passed in 2003 allows any city or town in Barnstable, Dukes, Nantucket, and Bristol counties to accept the provision that requires the Authority and certain other private ferry operators to impose a 50-cent per person ferry embarkation fee for travel originating from its community. The law exempts certain passengers from the town-mandated fee, including certain island residents traveling at excursion rates, commuters using ticket books, and those traveling in school-related groups.

The fees collected under the statute by the various ferry operators are distributed to the respective cities and towns through the Massachusetts Department of Revenue. The statute requires each city or town to deposit the monies received into a special fund "to be solely appropriated for the purpose of mitigating the impacts of ferry service on the city or town. Monies deposited may be appropriated for services including, but not limited to, providing harbor services, public safety protection, emergency services, or infrastructure improvements within and around the harbor."

The ferry embarkation fees collected by the Authority in 2012 were distributed through the Massachusetts Department of Revenue to the following port towns that have accepted the provisions of the statute:

Barnstable	$ 79,600 *
Falmouth	355,636
Nantucket	106,025
Oak Bluffs	107,910
Tisbury	242,297
Yarmouth	26,533 **

* 75% of fees collected from passengers departing from the Town of Barnstable

** 25% of fees collected from passengers departing from the Town of Barnstable

By the end of 2012, a total of $8,123,966 in ferry embarkation fees had been collected from passengers traveling on the Authority's vessels for the port towns that have accepted the provisions of Chapter 46 of the Acts of 2003, as amended by Chapter 55 of the Acts of 2003 and Chapter 65 of the Acts of 2004.

A Word of Thanks to the Employees of the Steamship Authority

Our continued success in providing safe and reliable service in 2012 would not have been possible without the dedication and commitment of our employees. Our vessel crews completed more than 21,600 trips during 2012, or 98.3% of all scheduled trips. Most of the 368 canceled trips were due to weather, with only 48 trips, or 0.2% of all scheduled trips, canceled for mechanical reasons. The Authority's customer service and reservation call centers handled more than 411,000 calls in 2012. Our online reservation system processed 45% of all vehicle reservations in 2012, up from 42% in 2011. We thank all of our employees for their contributions and for helping to provide the best possible service for our customers.

Passengers Carried

Number of passengers carried from each port during 2012.

FROM:		WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:	WOODS HOLE		858,656	258,451		
	VINEYARD HAVEN	869,253				
	OAK BLUFFS	258,081				
	NANTUCKET					278,815
	HYANNIS				279,724	
	TOTAL: 2012	1,127,334	858,656	258,451	279,724	278,815
	TOTAL: 2011	1,099,472	848,969	241,089	261,924	260,593
	CHANGE:	2.5%	1.1%	7.2%	6.8%	7.0%

Passengers Carried and Revenue - 2012 vs. 2011

	NUMBER OF PASSENGERS			TICKETED REVENUE FROM PASSENGERS CARRIED*			AVERAGE REVENUE PER PASSENGER		
MONTH	2011	2012	CHANGE	2011	2012	CHANGE	2011	2012	CHANGE
JANUARY	100,119	106,588	6.5%	$ 757,552	$ 801,138	5.8%	$ 7.57	$ 7.52	-0.7%
FEBRUARY	95,169	102,926	8.2%	716,001	767,625	7.2%	7.52	7.46	-0.8%
MARCH	111,633	119,979	7.5%	853,409	916,732	7.4%	7.64	7.64	0.0%
APRIL	157,199	170,202	8.3%	1,333,704	1,370,204	2.7%	8.48	8.05	-5.1%
MAY	237,024	248,171	4.7%	2,290,052	2,414,622	5.4%	9.66	9.73	0.7%
JUNE	292,942	309,675	5.7%	2,886,001	3,070,969	6.4%	9.85	9.92	0.7%
JULY	459,446	452,277	-1.6%	4,687,391	4,651,174	-0.8%	10.20	10.28	0.8%
AUGUST	441,497	479,942	8.7%	4,514,909	5,014,253	11.1%	10.23	10.45	2.2%
SEPTEMBER	298,836	299,269	0.1%	3,018,131	3,103,177	2.8%	10.10	10.37	2.7%
OCTOBER	224,905	218,888	-2.7%	2,126,356	2,106,526	-0.9%	9.45	9.62	1.8%
NOVEMBER	151,203	155,903	3.1%	1,324,933	1,488,077	12.3%	8.76	9.54	8.9%
DECEMBER	142,074	139,160	-2.1%	1,337,466	1,307,554	-2.2%	9.41	9.40	-0.1%
TOTAL	2,712,047	2,802,980	3.4%	$25,845,905	$27,012,051	4.5%	$ 9.53	$ 9.64	1.2%

* Ticketed revenue from passengers carried differs from passenger revenue in the financial statements due to classification and timing differences.

Automobiles Carried

Number of automobiles carried from each port during 2012.

FROM:	WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO: WOODS HOLE		159,122	33,092		
VINEYARD HAVEN	155,652				
OAK BLUFFS	37,687				
NANTUCKET					32,513
HYANNIS				31,784	
TOTAL: 2012	193,339	159,122	33,092	31,784	32,513
TOTAL: 2011	188,364	155,994	31,257	31,792	32,314
CHANGE:	2.6%	2.0%	5.9%	-0.0%	0.6%

Automobiles Carried and Revenue - 2012 vs. 2011

	NUMBER OF AUTOMOBILES			TICKETED REVENUE FROM AUTOMOBILES CARRIED*			AVERAGE REVENUE PER AUTOMOBILE		
MONTH	2011	2012	CHANGE	2011	2012	CHANGE	2011	2012	CHANGE
JANUARY	20,314	21,221	4.5%	$ 594,640	$ 636,047	7.0%	$ 29.27	$ 29.97	2.4%
FEBRUARY	19,231	20,862	8.5%	562,297	618,905	10.1%	29.24	29.67	1.5%
MARCH	23,588	25,068	6.3%	708,887	781,975	10.3%	30.05	31.19	3.8%
APRIL	28,956	31,570	9.0%	1,406,967	1,589,814	13.0%	48.59	50.36	3.6%
MAY	36,902	38,147	3.4%	2,273,574	2,378,989	4.6%	61.61	62.36	1.2%
JUNE	45,677	47,759	4.6%	3,459,612	3,652,065	5.6%	75.74	76.47	1.0%
JULY	61,370	60,057	-2.1%	5,158,552	5,006,410	-2.9%	84.06	83.36	-0.8%
AUGUST	61,103	64,538	5.6%	5,295,073	5,538,861	4.6%	86.66	85.82	-1.0%
SEPTEMBER	46,863	46,827	-0.1%	3,316,956	3,292,424	-0.7%	70.78	70.31	-0.7%
OCTOBER	36,907	35,237	-4.5%	2,053,664	1,988,844	-3.2%	55.64	56.44	1.4%
NOVEMBER	30,307	30,116	-0.6%	1,056,653	1,089,212	3.1%	34.86	36.17	3.8%
DECEMBER	28,503	28,448	-0.2%	897,912	904,128	0.7%	31.50	31.78	0.9%
TOTAL	439,721	449,850	2.3%	$26,784,787	$27,477,674	2.6%	$ 60.91	$ 61.08	0.3%

* Ticketed revenue from automobiles carried differs from automobile revenue in the financial statements due to classification and timing differences.

Trucks Carried

Number of trucks carried from each port during 2012.

FROM:		WOODS HOLE	VINEYARD HAVEN	OAK BLUFFS	NANTUCKET	HYANNIS
TO:	WOODS HOLE		50,313	6,030		
	VINEYARD HAVEN	50,629				
	OAK BLUFFS	5,986				
	NANTUCKET					20,600
	HYANNIS				20,199	
	TOTAL: 2012	56,615	50,313	6,030	20,199	20,600
	TOTAL: 2011	57,495	51,527	5,760	19,684	19,914
	CHANGE:	-1.5%	-2.4%	4.7%	2.6%	3.4%

Trucks Carried and Revenue - 2012 vs. 2011

	NUMBER OF TRUCKS			TICKETED REVENUE FROM TRUCKS CARRIED*			AVERAGE REVENUE PER TRUCK		
MONTH	2011	2012	CHANGE	2011	2012	CHANGE	2011	2012	CHANGE
JANUARY	9,846	9,879	0.3%	$ 1,158,407	$ 1,165,561	0.6%	$117.65	$117.98	0.3%
FEBRUARY	9,690	10,061	3.8%	1,145,217	1,192,037	4.1%	118.19	118.48	0.2%
MARCH	12,560	12,447	-0.9%	1,492,241	1,483,076	-0.6%	118.81	119.15	0.3%
APRIL	13,331	13,519	1.4%	1,735,515	1,786,764	3.0%	130.19	132.17	1.5%
MAY	15,274	15,819	3.6%	2,116,722	2,217,459	4.8%	138.58	140.18	1.2%
JUNE	16,004	15,374	-3.9%	2,397,631	2,305,827	-3.8%	149.81	149.98	0.1%
JULY	14,535	14,402	-0.9%	2,210,898	2,235,746	1.1%	152.11	155.24	2.1%
AUGUST	13,973	13,965	-0.1%	2,202,275	2,186,598	-0.7%	157.61	156.58	-0.7%
SEPTEMBER	13,154	12,652	-3.8%	1,778,012	1,713,291	-3.6%	135.17	135.42	0.2%
OCTOBER	12,939	12,455	-3.7%	1,611,003	1,634,034	1.4%	124.51	131.20	5.4%
NOVEMBER	11,767	12,024	2.2%	1,306,167	1,395,552	6.8%	111.00	116.06	4.6%
DECEMBER	11,307	11,160	-1.3%	1,271,851	1,227,284	-3.5%	112.48	109.97	-2.2%
TOTAL	154,380	153,757	-0.4%	$20,425,939	$20,543,229	0.6%	$132.31	$133.61	1.0%

* Ticketed revenue from trucks carried differs from freight revenue in the financial statements due to classification and timing differences.

Woods Hole, Martha's Vineyard and Nantucket

Steamship Authority

2012 ANNUAL REPORT

Financial Statements as of and for the Years Ended December 31, 2012 and 2011, Required Supplementary Information (Unaudited), and Independent Auditors' Report

McGladrey

INDEPENDENT AUDITORS' REPORT

To the Woods Hole, Martha's Vineyard and
Nantucket Steamship Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority"), which comprise the statement of net assets as of December 31, 2012, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority as of December 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Member of the RSM International network of independent accounting, tax and consulting firms.

Other Matters

The financial statements of the Authority, as of and for the year ended December 31, 2011, were audited by other auditors whose report dated April 23, 2012 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 16-27 and the schedules of funding progress on pages 51-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Boston, Massachusetts
April 15, 2013

As management of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority" or "Steamship Authority"), we offer readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2012 and 2011. The Steamship Authority is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the "Act"), "in order to provide adequate transportation of persons and necessaries of life for the islands of Nantucket and Martha's Vineyard".

Overview of the Financial Statements

This overview and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority is a special-purpose governmental entity engaged in only business-type activities. As such, its financial statements consist of only those required for enterprise funds and the related notes. The Authority's financial statements include statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows. In addition to the basic financial statements, this report includes notes to the financial statements and also contains required supplementary information pertaining to the pension plans and other postemployment benefit plan of the Authority.

The statements of net assets present information on the assets and liabilities of the Authority with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets report the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the year with the difference, the net income or loss, being combined with any capital grants and contributions; income from special-purpose restricted funds; and special items to determine the change in net assets for the year. That change combined with the net assets at the end of the previous year reconciles to the net assets at the end of the current year.

The statements of cash flows report cash and cash equivalents activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net results of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the current year.

Condensed Financial Information

Condensed financial information from the statements of net assets and the statements of revenues, expenses, and changes in net assets for the years ended December 31, 2012, 2011, and 2010, are as follows:

	2012	2011	2010
Current and other noncurrent assets	$ 16,437,815	$ 16,132,392	$ 16,310,332
Special-purpose restricted funds	28,344,970	28,930,901	22,855,245
Capital assets, net	129,312,320	128,543,621	128,109,712
Total assets	174,095,105	173,606,914	167,275,289
Current liabilities	11,191,596	9,161,390	9,202,933
Liabilities payable from special-purpose restricted funds	6,072,273	5,873,232	5,733,221
Noncurrent liabilities	71,552,707	77,108,955	59,665,262
Total liabilities	88,816,576	92,143,577	74,601,416
NET ASSETS	**$ 85,278,529**	**$ 81,463,337**	**$ 92,673,873**
Net assets:			
Invested in capital assets, net of related debt	$ 70,071,137	$ 64,051,887	$ 64,985,437
Restricted	27,547,697	28,117,669	21,977,024
Unrestricted	(12,340,305)	(10,706,219)	5,711,412
TOTAL NET ASSETS	**$ 85,278,529**	**$ 81,463,337**	**$ 92,673,873**
Operating revenues:			
Passengers	$ 27,516,903	$ 26,361,381	$ 25,072,976
Automobiles	27,336,773	26,749,937	26,263,879
Freight	20,558,972	20,548,745	19,847,701
Parking and other	9,959,610	9,552,961	9,134,682
TOTAL OPERATING REVENUES	**85,372,258**	**83,213,024**	**80,319,238**
Operating expenses:			
Operation of vessels	24,176,940	23,374,302	21,832,069
Operation of terminals and parking lots	9,639,935	9,349,833	9,054,838
Maintenance	10,164,512	9,122,562	9,530,077
Reservations, advertising, and other traffic	2,642,076	2,239,809	2,125,321
Depreciation and amortization	9,737,074	9,243,906	9,004,123
General and administration	24,439,860	24,059,969	24,636,099
TOTAL OPERATING EXPENSES	**80,800,397**	**77,390,381**	**76,182,527**
Operating income	**4,571,861**	**5,822,643**	**4,136,711**
Interest on bonds and other obligations	(3,016,145)	(2,726,052)	(2,687,734)
Miscellaneous revenue	1,298,842	1,244,336	745,043
Miscellaneous expense	(74,362)	(165,742)	(79,961)
Net nonoperating (expenses) revenues	(1,791,665)	(1,647,458)	(2,022,652)
Income before capital grants and contributions, income from special-purpose restricted funds and special item – Teamsters pension withdrawal	2,780,196	4,175,185	2,114,059
Capital grants and contributions	1,033,017	718,529	3,488,686
Income from special-purpose restricted funds	1,979	1,841	3,663
Special item – Teamsters pension withdrawal	-	(16,106,091)	-
Change in net assets	3,815,192	(11,210,536)	5,606,408
NET ASSETS, Beginning of year	**81,463,337**	**92,673,873**	**87,067,465**
NET ASSETS, End of year	**$ 85,278,529**	**$ 81,463,337**	**$ 92,673,873**

FINANCIAL ANALYSIS

Comparison of Financial Condition at December 31, 2012 and 2011

The Authority's total assets and liabilities were $174,095,105 and $88,816,576, respectively, as of December 31, 2012, as compared to $173,606,914 and $92,143,577, respectively, at December 31, 2011. The net assets as of December 31, 2012, were $85,278,529, a 4.7% increase from the prior fiscal year-end.

The increase in total net assets was $3,815,192 for the year ended December 31, 2012, up from the $11,210,536 decrease in total net assets posted in 2011. Income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension withdrawal in 2012 decreased $1,394,989, or 33.4%, compared to the prior year.

The decrease in income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension withdrawal was primarily attributed to a $3,410,016 increase in the Authority's total operating expenses. Total operating revenues in 2012 were $2,159,234 higher than in 2011. The Steamship Authority's total operating revenues in 2012 increased by 2.5% versus 2011. Total operating expenses for the year ended December 31, 2012 increased by $3,410,016 versus the previous year while nonoperating expenses increased by $144,207. Total operating expenses increased by 4.4% from 2011 to 2012. These changes are discussed in greater detail in the following sections.

During 2011, the Steamship Authority was awarded grants under the Ferry Boat Discretionary Program and the Port Security Program. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses, and Changes in Net Assets.

Operating Revenues

The Steamship Authority's total operating revenues in 2012 were $85,372,258. Total operating revenues increased by approximately $2,159,000 for the year ended December 31, 2012.

The number of passengers carried increased by 90,933, or 3.4%, in 2012 from 2011. Ridership on the conventional service increased by 46,570 riders, or 1.9%, while passenger traffic carried on the *M/V Iyanough* increased by 44,363 passengers, or 20.0%, for the year as compared to 2011. In addition, the average revenue per passenger increased from $9.72 in 2011 to $9.82 in 2012 due, in part, to the increase in riders on the high-speed service.

The number of automobiles carried increased by 10,129, or 2.3%, in 2012 versus 2011. The average revenue per automobile decreased from $60.83 in 2011 to $60.77 in 2012 due, in part, to a change in the mix of automobiles carried on the Martha's Vineyard and Nantucket routes.

The number of trucks carried decreased by 623, or 0.4%, in 2012 from 2011 traffic levels. The average revenue per truck increased from $133.10 in 2011 to $133.71 during 2012 due, in part, to an overall increase in trucks carried to Nantucket.

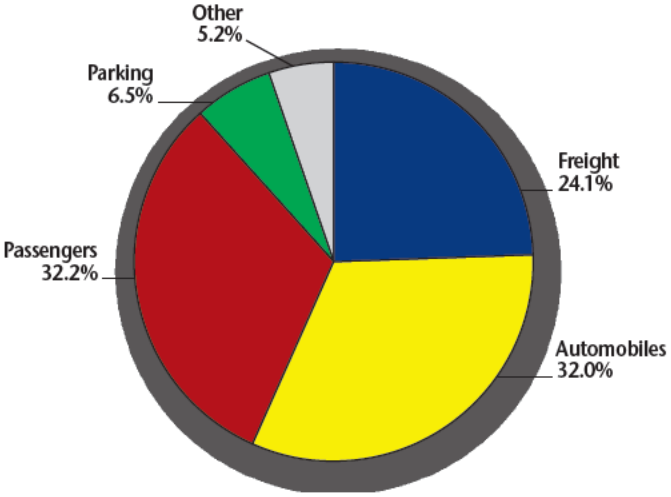
Parking revenue in 2012 increased by approximately $297,000 from 2011, primarily as a result of an increase in cars parked. The number of cars parked increased by 8,814, or 5.5%, versus 2011. Total parking revenues in 2012 were $5,513,211, an increase of 5.7% versus the previous year.

FINANCIAL ANALYSIS...*continued*

Operating Revenues...continued

Other miscellaneous operating revenues increased by approximately $110,000, or 2.5%, in 2012, primarily due to increases in cancellation penalties and miscellaneous service charges for driver services.

The major sources of operating revenues for the year ended December 31, 2012, were as follows:



Operating Expenses

The Authority's total operating expenses in 2012 were $80,800,397; in 2011, total operating expenses were $77,390,381. Total operating expenses in 2012 were $3,410,016, or 4.4%, higher than the previous year. Increases in vessel fuel oil costs, maintenance expense, depreciation expense, and advertising were partially offset by lower insurance expense, legal expenses, and rent expense, compared to the prior year.

Maintenance expense increased in 2012 versus 2011 by approximately $1,042,000, or 11.4%. The increase was primarily attributable to engine parts and engine repairs expense increases of $847,000, miscellaneous terminal repairs increases of $472,000, dolphin and dock work increases of $229,000, and software maintenance increases of $51,000. Vessel dry-dock expense decreased by $429,000 versus the previous year.

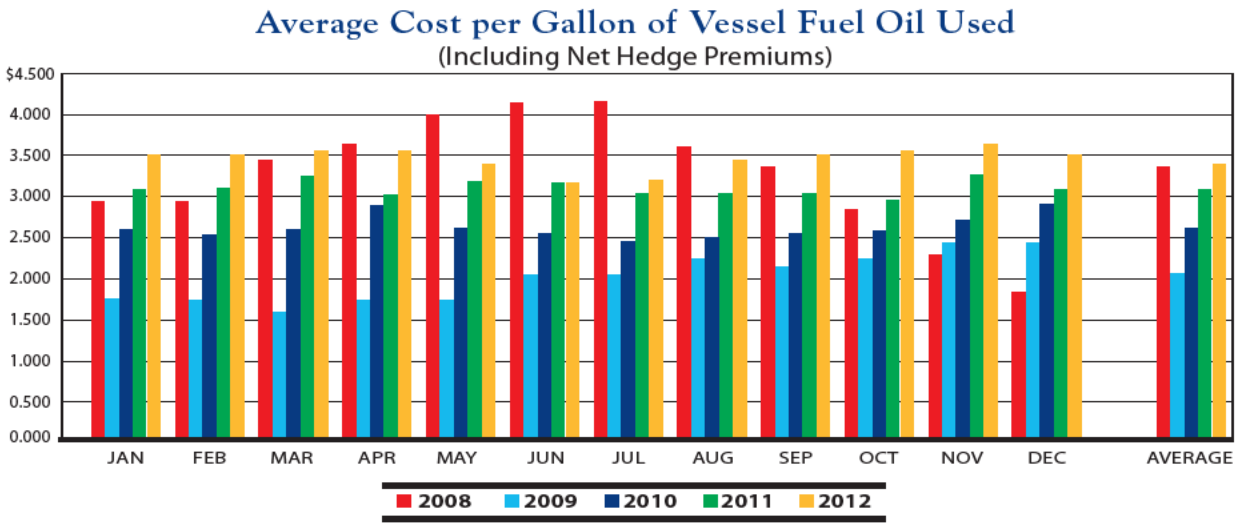
Depreciation and amortization expense increased in 2012 versus 2011 by $493,000, or 5.3%. This increase is primarily attributable to the additions of a full year's depreciation for the *M/V Governor's* repowering project and a partial year's depreciation for Phase II of the *M/V Eagle's* Mid-Life Refurbishment project.

Vessel operating expenses increased by approximately $803,000, or 3.4%, versus 2011. This increase was chiefly due to higher fuel oil expense. Vessel payroll expense in 2012 decreased by $208,000, or 1.5%, versus 2011 payroll expense. Vessel fuel oil expense, including hedging premiums and commissions, was $9,352,000, which was $1,140,000, or 13.9%, higher in 2012 than in 2011. The average cost per gallon of fuel used operating in 2012 was $3.419, which represents an increase of 12.6% over the average cost per gallon of fuel used in 2011 of $3.036.

FINANCIAL ANALYSIS...*continued*

Operating Expenses...continued

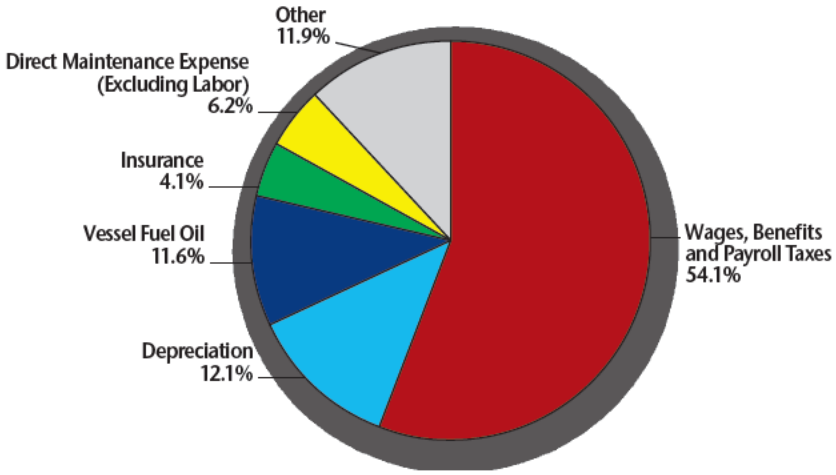
During 2012, the Authority operated 21,641 vessel trips, which represented an increase of 165 trips, or 0.8%, versus 2011.



Expenses related to the Operation of Terminals and Parking Lots increased in 2012 versus 2011 by $290,000, or 3.1%. This increase was primarily attributed to a 2.1%, or $165,000, increase in payroll costs, a $25,000 increase in uniforms cost, and a $49,000 increase in parking lot expenses.

Expenses to operate Reservations and Customer Service increased in 2012 versus 2011 by approximately $402,000, or 18.0%. This increase was primarily attributed to higher advertising expense and other traffic expense along with an $81,000 increase in payroll expense.

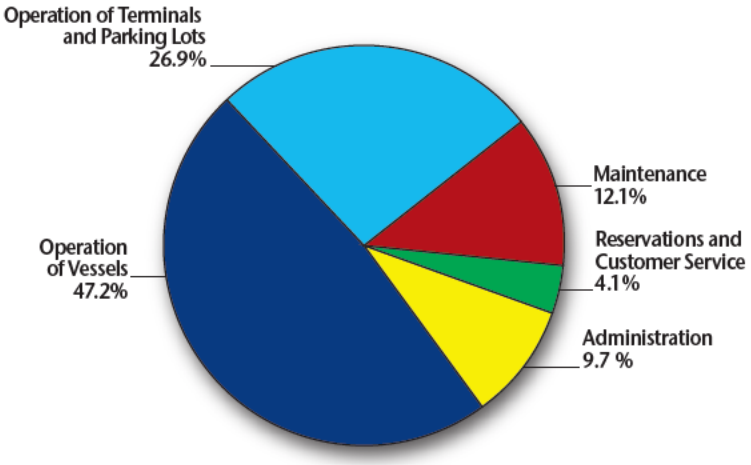
General and administration expense, which includes insurance, payroll taxes, rents, pension and health care costs, increased by $380,000 in 2012, or 1.6%, versus 2011. Increases in health care costs for the Authority's self-funded plans, credit card processing fees, and payroll expenses were the primary cause for the increase. The major sources of operating expenses for the year ended December 31, 2012, were as follows:



FINANCIAL ANALYSIS...*continued*

Operating Expenses...continued

Over 54% of the Authority's operating expenses in 2012 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2012 was distributed to the following functions:



Comparison of Financial Condition at December 31, 2011 and 2010

The Authority's total assets and liabilities were $173,606,914 and $92,143,577, respectively, as of December 31, 2011, as compared to $167,275,289 and $74,601,416, respectively, at December 31, 2010. The net assets as of December 31, 2011, were $81,463,337, a 12.1% decrease from the prior fiscal year-end.

The decrease in total net assets was $11,210,536 for the year ended December 31, 2011, down from the $5,606,408 increase in total net assets posted in 2010. Income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension withdrawal in 2011 increased $2,061,126, or 97.5%, compared to the prior year.

The increase in income before capital grants and contributions; income from special-purpose restricted funds; and the special item for pension withdrawal was primarily attributed to a $2,893,786 increase in the Authority's total operating revenues. Total operating expenses for the year ended December 31, 2011 increased by $1,207,854 versus the previous year while nonoperating expenses decreased by $375,194. The Steamship Authority's total operating revenues in 2011 increased by 3.6% versus 2010. Total operating expenses increased by 1.6% from 2010 to 2011. These changes are discussed in greater detail in the following sections.

During 2011, the Steamship Authority was awarded grants under the Ferry Boat Discretionary Program and the Port Security Program. These awards are recorded under the heading Capital Grants and Contributions in the Statements of Revenues, Expenses, and Changes in Net Assets.

Operating Revenues

The Steamship Authority's total operating revenues in 2011 were $83,213,024. Total operating revenues increased by approximately $2,894,000 for the year ended December 31, 2011. In order to ensure sufficient income to meet the cost of service in 2011, the Authority members approved certain rate increases, effective January 3, 2011. These rate increases helped to offset some of the effect that reductions in traffic had during 2011.

The number of passengers carried decreased by 24,100, or 0.9%, in 2011 from 2010. Ridership on the conventional service decreased by 31,159 riders, or 1.2%, while passenger traffic carried on the *M/V Iyanough* increased by 7,059 passengers, or 3.3%, for the year as compared to 2010. In addition, the average revenue per passenger increased

FINANCIAL ANALYSIS...*continued*

Operating Revenues...continued

from $9.16 in 2010 to $9.72 in 2011 due, in part, to an increase in riders on the high-speed service as well as the rate increases that became effective January 3, 2011.

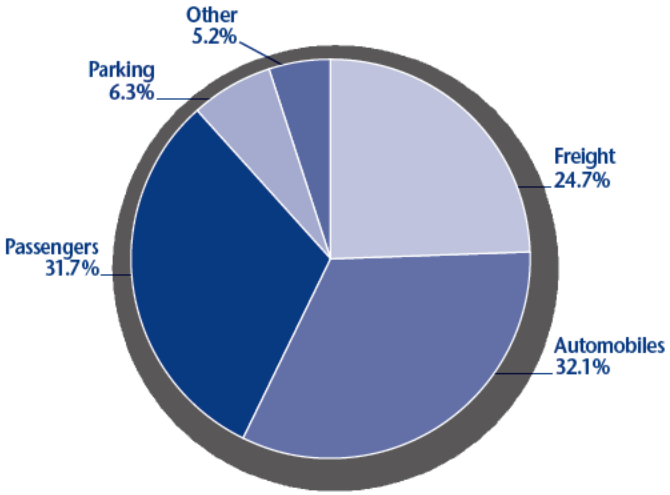
The number of automobiles carried increased by 1,206, or 0.3%, in 2011 versus 2010. The average revenue per automobile increased from $59.89 in 2010 to $60.83 in 2011 due, in part, to the rate increases that became effective January 3, 2011.

The number of trucks carried decreased by 2,256, or 1.4%, in 2011 from 2010 traffic levels. The average revenue per truck increased from $126.71 in 2010 to $133.10 during 2011 due, in part, to the rate increases that became effective January 3, 2011.

Parking revenue in 2011 decreased by approximately $16,000 from 2010, primarily as a result of a decrease in cars parked. The number of cars parked decreased by 2,719, or 1.7%, versus 2010. Total parking revenues in 2011 were $5,216,242, a decrease of 0.3% versus the previous year.

Other miscellaneous operating revenues increased by approximately $435,000, or 11.1%, in 2011, primarily due to increases in cancellation penalties and miscellaneous service charges for driver services.

The major sources of operating revenues for the year ended December 31, 2011, were as follows:



Operating Expenses

The Authority's total operating expenses in 2011 were $77,390,381; in 2010, total operating expenses were $76,182,527. Total operating expenses in 2011 were $1,207,854, or 1.6%, higher than the previous year. Increases in vessel fuel oil costs, payroll, depreciation expense, and credit card fees were partially offset by lower maintenance expense, health and welfare expenses and rent expense, compared to the prior year.

Maintenance expense decreased in 2011 versus 2010 by approximately $408,000, or 4.3%. The decrease was primarily attributable to lower vessel repair expense as miscellaneous vessel repairs decreased by $388,000, dolphin and dock work at the terminals decreased by $103,000, engine parts and repair decreased by $63,000, and life raft repairs decreased by $30,000, while dry-dock expense increased by $273,000 and software maintenance increased by $30,000.

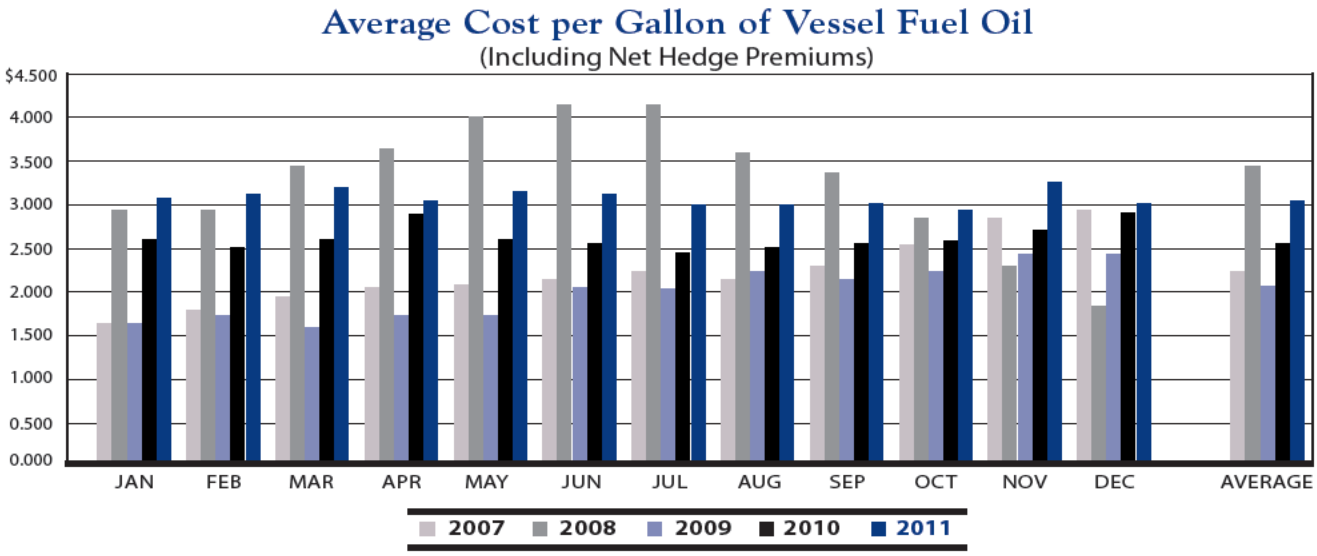
Depreciation and amortization expense increased in 2011 versus 2010 by $240,000, or 2.7%. This increase is primarily attributable to the additions of the Continuation of Phase II of the Oak Bluffs Terminal Reconstruction project and for the Hyannis Terminal Slip Improvement project.

FINANCIAL ANALYSIS...*continued*

Operating Expenses...continued

Vessel operating expenses increased by approximately $1,542,000, or 7.1%, versus 2010. This increase was chiefly due to higher payroll expense and fuel oil expense. Vessel payroll expense in 2011 increased by $358,000, or 2.6%, versus 2010 payroll expense. Vessel fuel oil expense, including hedging premiums and commissions, was $8,212,000, which was $1,221,000, or 17.5%, higher in 2011 than in 2010. The average cost per gallon of fuel used operating in 2011 was $3.036, which represents an increase of 17.4% over the average cost per gallon of fuel used in 2010 of $2.585.

During 2011, the Authority operated 21,476 vessel trips, which represented an increase of 216 trips, or 1.0%, versus 2010.



Expenses related to the Operation of Terminals and Parking Lots increased in 2011 versus 2010 by $295,000, or 3.3%. This increase was primarily attributed to a 1.9%, or $146,000, increase in payroll costs and a $36,000 increase in fuel expense for the shuttle buses.

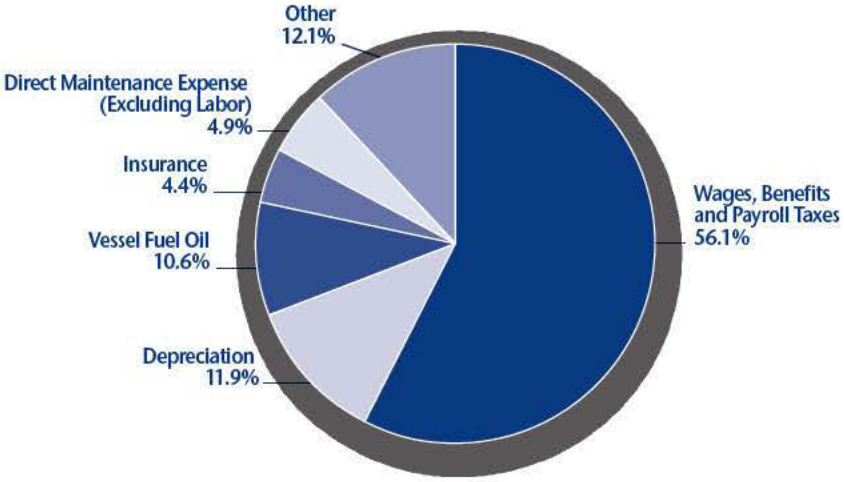
Expenses to operate Reservations and Customer Service increased in 2011 versus 2010 by approximately $114,000, or 5.4%. This increase was primarily attributed to higher advertising expense and other traffic expense as there was a $16,000 decrease in payroll expense.

General and administration expense, which includes insurance, payroll taxes, rents, pension and health care costs, decreased by $711,000 in 2011, or 3.8%, versus 2010. Decreases in overall pension costs, health care costs for the Authority's self-funded plans, and unemployment expenses were the primary cause for the decline.

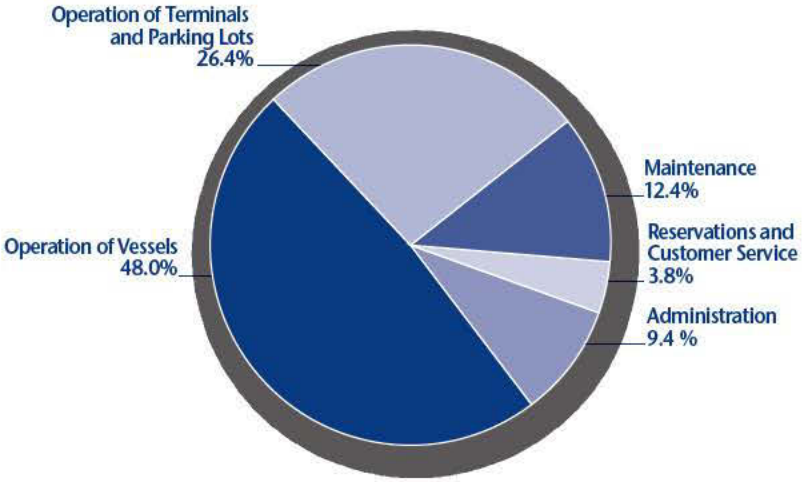
FINANCIAL ANALYSIS...*continued*

Operating Expenses...continued

The major sources of operating expenses for the year ended December 31, 2011, were as follows:



Over 56% of the Authority's operating expenses in 2011 were attributed to wages and the cost of employee benefits. The Authority's payroll in 2011 was distributed to the following functions:



FINANCIAL ANALYSIS...*continued*

Special-Purpose Restricted Funds and Fund Transfers in 2012

The Authority's Enabling Act requires revenue derived from its operation to be set aside each month in a specific order and in amounts as follows:

(1) to the Operations Fund, an amount sufficient to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month, and to maintain working capital for such purposes in an amount not exceeding one thirty-sixth of the operating budget for the then-current fiscal year;

(2) to the Sinking Fund, an amount sufficient to provide for the payment of the interest on and for the amortization and payment of the principal of all bonds as the same shall become due and payable;

(3) to the Property Replacement Fund, such amount as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and losses in respect to property sold, destroyed, or abandoned, and for improvements to, and acquisitions of, real and personal property (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);

(4) to the Reserve Fund, an amount sufficient to maintain the fund at a level equal to the greater of 5% of the principal amount of all bonds outstanding, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and

(5) to the Bond Redemption Fund, all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued.

The Authority's cash flow during 2012 allowed for transfers to be made to the Sinking Fund to meet the scheduled bond interest payment of $1,215,339 on September 1, 2012, and to provide for the payment of bond interest and principal due on March 1, 2013, in the amounts of $1,182,839 and $5,275,000, respectively.

In addition, $9,243,906 was transferred from the Operations Fund to the Property Replacement Fund, an increase of $1,597,593 over the previous year's transfers. Disbursements from the Property Replacement Fund in 2012, totaling $4,202,395, were comprised of the following:

M/V Eagle Mid-Life Refurbishment (Phase II)	$2,176,203
Fairhaven Maintenance Facility Head Dolphins and North Transfer Bridge	634,775
ADA-Compliant Passenger Loading Ramps and Decks	446,424
Acquisition of Property at 123 School Street, Hyannis, MA	332,637
Network Upgrades and Computer Replacements	282,205
Telephone System Upgrade	110,390
Security Improvements	82,785
Other miscellaneous projects under $50,000, individually	136,976

At December 31, 2012, the Property Replacement Fund balance was $14,621,186, including income earned from investments of $1,285 during 2012.

FINANCIAL ANALYSIS…*continued*

Special-Purpose Restricted Funds and Fund Transfers in 2012…continued

The Authority's Capital Improvement Fund balance as of December 31, 2012 was $294,644, including income from investments of $25. During 2012, disbursements from the Capital Improvement Fund totaled $5,821,237. Fund disbursements in 2012 were $5,773,756 for the *M/V Eagle* Mid-Life Refurbishment Phase II and $47,481 for the bond issuance costs related to the 2011 Series A Steamship Bonds.

The Authority's Reserve Fund balance at December 31, 2012, was $2,906,251, including income from investments of $283 during 2012. $196,744 was transferred from the Reserve Fund to the Bond Redemption Fund during 2012.

The Bond Redemption Fund balance was $4,064,407 at December 31, 2012, including income from investments of $386 during 2012. $68 was transferred from the Operations Fund to the Bond Redemption Fund during 2012. In addition, $196,744 was transferred from the Reserve Fund to the Bond Redemption Fund.

Investment income from the special-purpose restricted funds amounted to $1,979 during 2012, excluding income from investments in the Sinking Fund of $643.

Capital Assets and Debt Administration

Capital Assets

The Authority's capital assets as of December 31, 2012 amounted to $129,312,320, net of accumulated depreciation. The Authority's investment in capital assets includes vessels, buildings and structures, office and terminal equipment, motor vehicles, land, leasehold improvements, and construction projects in progress. During 2012, the Authority invested $944,993 in various capital assets and an additional $9,560,780 was invested in construction projects in progress. Capital asset additions were funded through the Authority's operations funds and special-purpose restricted funds.

During 2012, the Steamship Authority recognized a net gain on the sale of assets of $5,000, which is reported as nonoperating miscellaneous revenues and expenses.

Debt Administration

The Authority is currently authorized under the provisions of the Enabling Act, as amended, to issue bonds in an amount not to exceed $75,000,000 outstanding at any one time. The Authority's Enabling Act further provides that if at any time any principal or interest is due or about to become due on the Authority's bonds and the funds to pay the same are not available, the Authority shall certify to the State Treasurer the amount required to meet such obligations and the Commonwealth shall pay over to the Authority the amount so certified. In the opinion of the Authority's bond counsel, the obligation of the Commonwealth of Massachusetts (the "Commonwealth") to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth is pledged to make such payment. Since 1962, the Commonwealth has not been called upon to make payments to the Authority under the provisions of the Enabling Act.

The Authority made scheduled principal payments of $5,060,000 during 2012. In 2011, the Authority made scheduled principal payments of $4,855,000. The total amount of bonds outstanding, net of unamortized premiums of $1,598,069 and the deferred loss on defeasance of $119,147, was $58,125,000 as of December 31, 2012. At December 31, 2012, there were no bond anticipation notes outstanding.

More detailed information regarding the Authority's capital assets and debt administration activities for 2012 can be found in the notes to the financial statements (Notes 2 and 3, respectively).

FINANCIAL ANALYSIS...*continued*

Economic Factors

The Authority's traffic statistics for the past five years are as follows:

	2008	2009	2010	2011	2012
Passengers	2,692,031	2,693,178	2,736,147	2,712,047	2,802,980
Automobiles	451,820	433,042	438,515	439,721	449,850
Trucks	142,930	156,611	156,636	154,380	153,757
Cars parked	158,337	160,675	163,418	160,699	169,513
Trips made	21,796	21,445	21,260	21,476	21,641
Nautical miles	327,510	319,026	315,192	318,724	319,428

The Authority's automobile and truck traffic statistics for 2009 have been adjusted to reflect a reclassification of 23,436 vehicles previously classified as automobiles to the truck classification.

Demand for the Authority's services is mainly affected by the overall economic activity on Martha's Vineyard and Nantucket, both seasonally and year-round. The economic activity is a reflection of the overall decline in construction on the islands as the reduction is more prominent in the larger trucks being carried. Other factors, such as weather-related conditions, capacity constraints, and operational limitations, can also have an impact on the Authority's annual ridership volumes.

In order to ensure sufficient income to meet the cost of service in 2013, the Authority Members approved certain rate increases, effective January 1, 2013, that are expected to raise $1,500,000 in additional operating revenue based on 2012 traffic volumes. These rate increases were needed to offset the expected increases in operating expenses, primarily vessel fuel oil expense, wages, benefits and maintenance expense.

Requests for Information

This report is intended to provide an overview of the Authority's financial condition. Questions concerning any of the information in this report or requests for additional information should be addressed to the Authority's Treasurer/Comptroller, P.O. Box 284, Woods Hole, MA 02543.

Statements of Net Assets
December 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,694,323	$ 9,544,289
Receivables, net	1,423,143	1,428,493
Grants receivable	959,448	741,577
Receivable from the Town of Falmouth	289,315	378,885
Inventories	791,539	630,645
Prepaid insurance and other	2,426,042	2,576,188
Prepaid fuel hedge	491,266	465,638
TOTAL CURRENT ASSETS	**16,075,076**	15,765,715
SPECIAL-PURPOSE RESTRICTED FUNDS:		
Cash and cash equivalents:		
Sinking fund:		
Current bond maturities and interest	6,458,482	6,266,735
Redemption of bonds	4,064,407	3,867,209
Property replacement fund	14,621,186	9,578,390
Reserve fund	2,906,251	3,102,712
Capital improvement fund	294,644	6,115,855
TOTAL SPECIAL-PURPOSE RESTRICTED FUNDS	**28,344,970**	28,930,901
CAPITAL ASSETS:		
Vessels	115,499,749	106,925,118
Terminal buildings and equipment	90,905,709	88,539,405
Land and land improvements	22,988,837	22,656,200
Construction in progress	5,045,677	5,889,556
Less - accumulated depreciation	(105,127,652)	(95,466,658)
TOTAL CAPITAL ASSETS, NET	**129,312,320**	128,543,621
OTHER NONCURRENT ASSETS:		
Deferred bond issuance costs	362,739	366,677
TOTAL	**$ 174,095,105**	$ 173,606,914

See notes to financial statements.

Statements of Net Assets
December 31, 2012 and 2011

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES:		
Accounts payable	$ 4,348,960	$ 3,058,870
Accrued wages, vacation pay, and expenses	4,269,971	3,815,455
Unearned revenue	2,159,032	1,888,871
Pension withdrawal liability	413,633	398,194
TOTAL CURRENT LIABILITIES	**11,191,596**	9,161,390
LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS:		
Accrued interest on Steamship Bonds	797,273	813,232
Current portion of long-term debt	5,275,000	5,060,000
TOTAL LIABILITIES PAYABLE FROM SPECIAL-PURPOSE RESTRICTED FUNDS	**6,072,273**	5,873,232
NONCURRENT LIABILITIES:		
Long-term debt, net of current portion	54,328,922	59,798,411
Net pension liabilities	1,315,666	1,085,132
Other postemployment benefits	743,255	646,915
Pension withdrawal liability	15,164,864	15,578,497
TOTAL NONCURRENT LIABILITIES	**71,552,707**	77,108,955
TOTAL LIABILITIES	**88,816,576**	92,143,577
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Invested in capital assets, net of related debt	70,071,137	64,051,887
Restricted	27,547,697	28,117,669
Unrestricted	(12,340,305)	(10,706,219)
TOTAL NET ASSETS	**85,278,529**	81,463,337
TOTAL	**$ 174,095,105**	$ 173,606,914

See notes to financial statements.

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Passenger	$ 27,516,903	$ 26,361,381
Automobile	27,336,773	26,749,937
Freight	20,558,972	20,548,745
Parking	5,513,211	5,216,242
Other	4,446,399	4,336,719
TOTAL OPERATING REVENUES	**85,372,258**	83,213,024
OPERATING EXPENSES:		
Operation of vessels	24,176,940	23,374,302
Operation of terminals and parking lots	9,639,935	9,349,833
Maintenance	10,164,512	9,122,562
Reservations, advertising, and other traffic	2,642,076	2,239,809
Depreciation and amortization	9,737,074	9,243,906
General and administrative	24,439,860	24,059,969
TOTAL OPERATING EXPENSES	**80,800,397**	77,390,381
OPERATING INCOME	**4,571,861**	5,822,643
NONOPERATING (EXPENSES) REVENUES:		
Interest on bonds and other obligations	(3,016,145)	(2,726,052)
Miscellaneous revenue	1,298,842	1,244,336
Miscellaneous expense	(74,362)	(165,742)
TOTAL NONOPERATING (EXPENSES) REVENUES	**(1,791,665)**	(1,647,458)
INCOME BEFORE CAPITAL GRANTS AND CONTRIBUTIONS, INCOME FROM SPECIAL-PURPOSE RESTRICTED FUNDS AND SPECIAL ITEM - TEAMSTERS PENSION WITHDRAWAL	2,780,196	4,175,185
Capital grants and contributions	1,033,017	718,529
Income from special-purpose restricted funds	1,979	1,841
Special item - Teamsters pension withdrawal	-	(16,106,091)
CHANGE IN NET ASSETS	**3,815,192**	(11,210,536)
NET ASSETS, Beginning of year	**81,463,337**	92,673,873
NET ASSETS, End of year	**$ 85,278,529**	$ 81,463,337

See notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments from customers	$ 85,656,683	$ 83,198,537
Payments to employees for services	(28,789,979)	(29,011,246)
Payments to suppliers and contractors	(39,955,488)	(40,044,935)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**16,911,216**	14,142,356
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Principal payments on withdrawal liability	(398,194)	(129,397)
Receipts from other funds and license activities	1,071,453	647,138
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**673,259**	517,741
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on Steamship Bonds	(5,060,000)	(4,855,000)
Proceeds from capital debt	(47,481)	6,316,305
Interest paid	(2,362,888)	(2,457,591)
Interest paid on withdrawal liability	(601,806)	(203,936)
Proceeds from sales of capital assets	5,000	54,183
Capital expenditures	(10,788,524)	(8,913,385)
Capital grant received	815,146	176,482
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(18,040,553)**	(9,882,942)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	18,202	14,293
Interest from special-purpose restricted funds	1,979	1,841
NET CASH PROVIDED BY INVESTING ACTIVITIES	**20,181**	16,134
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(435,897)**	4,793,289
CASH AND CASH EQUIVALENTS, Beginning of year	**38,475,190**	33,681,901
CASH AND CASH EQUIVALENTS, End of year	**$ 38,039,293**	$ 38,475,190
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 4,571,861	$ 5,822,643
Depreciation	9,737,074	9,243,906
Changes in assets and liabilities:		
Receivables	14,264	(97,666)
Inventories	(160,894)	8,154
Prepaid insurance and other and prepaid fuel hedge	124,518	(248,053)
Accounts payable	1,572,842	(1,538,093)
Accrued wages, vacation pay, and expenses	454,516	147,146
Other postemployment benefits	96,340	124,391
Pension obligations	230,534	596,749
Unearned revenue	270,161	83,179
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 16,911,216**	$ 14,142,356

Supplemental disclosure of noncash transactions:
At December 31, 2012 and 2011, the Authority had capital expenditures in the amount of $772,865 and $1,055,617, respectively, that were included in accounts payable.

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Authority") is a public instrumentality created by the legislature of the Commonwealth of Massachusetts under Chapter 701 of the Acts of 1960, as amended (the "Act"). The Authority has no stockholders or equity holders.

Measurement Focus, Basis of Accounting, and Financial Reporting Presentation The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under these standards, the Authority is defined as a special-purpose governmental entity engaged only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized at the time transportation, parking, and other services are provided. Unearned revenue represents cash received in advance of future service.

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which establishes guidance for applying standards established in Financial Accounting Standards Board (FASB) statements and interpretations to the preparation of financial statements for proprietary fund activities. In accordance with GASB Statement No. 62, the Authority complies with and observes all FASB statements and interpretations that were issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

Transfers and Use of Funds The Act and the provisions of the Bond Resolutions with the Authority's bondholders govern the disposition of revenue and prescribe certain accounting practices of the Authority, which include the conditions for transfers between the various accounts and the use of such funds. The Act was amended in 1985 to increase the maximum amount of funds allowed in the operating account and reserve fund.

Cash and Cash Equivalents The amounts classified as cash and cash equivalents may include U.S. Government securities with maturities of three months or less when purchased.

Investments Investments consist primarily of U.S. agency obligations and are reported at fair value as determined based on quoted market prices as of the balance sheet date. Quoted market prices represent the amount at which an investment could be exchanged in a current transaction between two willing parties. The Authority's investments in 2012 and 2011 qualified to be reported as cash equivalents.

Inventories Materials and supplies are stated at cost on a first-in, first-out basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…*continued*

Capital Assets Vessels, terminal property, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method based on the estimated service lives of the related assets. The Authority's capitalization threshold for a single item is $5,000 or $10,000 for a group of items. The estimated service lives are as follows:

Vessels	10–30 years
Buildings and structures:	
Buildings and wharves	30 years
Sheds, fences, and pavement	10–20 years
Office and terminal equipment:	
Computer equipment	3–5 years
Other	10 years
Motor vehicles	5 years
Leasehold improvements	Shorter of remaining term of lease or estimated useful life

The Authority capitalizes interest costs incurred in the construction of certain qualifying assets. For the years ended December 31, 2012 and 2011, the Authority incurred interest expense from operations of $3,016,145 and $2,726,052, respectively. Capitalized interest was $58,324 and $51,146 in 2012 and 2011, respectively.

Bond Issue Costs Bond issue costs are amortized using the straight-line method over the remaining lives of the bonds. Amortization expense for 2012 and 2011 amounted to $51,419 and $49,828, respectively.

To the extent the Authority refunds existing bond obligations, the related unamortized bond issue costs are recorded as part of a deferred loss or gain and netted against the Authority's long-term debt for financial reporting purposes. The amortization of such amounts is reported as a component of interest expense.

Risk Financing and Related Insurance Issues The Authority is self-insured with respect to medical benefits provided to certain employees and retirees. With respect to these medical benefits, the Authority purchases stop-loss insurance, which covers all incurred claims in excess of approximately $6,200,000 in the aggregate, up to a maximum aggregate benefit payment of $1,000,000 per person per year. The Authority purchases commercial insurance to cover all other risks of loss. During the current and previous three years, there have been no settlements in excess of insurance coverage maintained by the Authority.

Accrued Sick Leave and Vacation Employees are granted sick leave and vacation in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick leave and vacation (subject to certain limitations) at their then-current rates of pay. The accumulated amount of sick and vacation leave is recorded as an expense and liability as the benefits accrue to employees.

Net Assets Net assets are reported in classifications that conform to the use of those net assets. The categories of reporting net assets are (1) amounts invested in capital assets – net of related debt, (2) amounts that are legally or statutorily restricted as to their use, and (3) amounts that are unrestricted.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant use of estimates includes the accrual for claims to be submitted under the Authority's self-funded health insurance and the allowance for uncollectible accounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES…*continued*

Adoption of New Accounting Pronouncements In December 2009, the GASB issued GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members. The adoption of this standard did not have a material impact on the Authority's financial statements.

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement improves existing standards regarding financial reporting and disclosure requirements of service concession arrangements, which are a type of public-private or public-public partnership. The adoption of this standard did not have a material impact on the Authority's financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement eliminates the election provided in paragraph 7 of GASB Statement No. 20 for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements that do not conflict with or contradict GASB pronouncements. The adoption of this standard did not have a material impact on the Authority's financial statements.

The GASB has issued the following statements, which require adoption subsequent to December 31, 2012, and are applicable to the Authority. The Authority has not yet adopted these statements, and the implications on the fiscal practices and financial reports are being evaluated.

GASB STATEMENT NO.		ADOPTION REQUIRED IN FISCAL YEAR
61	*The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*	2013
65	*Items Previously Reported as Assets and Liabilities*	2013
66	*Technical Correction - GASB No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA*	2013
67	*The Financial Reporting for Pension Plans*	2014
68	*Accounting and Financial Reporting for Pensions*	2015
69	*Government Combinations and Disposals of Government Operations*	2014

2. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets , not being depreciated:				
Land	$ 20,711,821	$ 332,637	$ -	$ 21,044,458
Construction in progress	5,889,556	9,560,780	(10,404,659)	5,045,677
Total capital assets, not being depreciated	26,601,377	9,893,417	(10,404,659)	26,090,135
Capital assets, being depreciated:				
Vessels	106,925,118	82,785	8,491,846	115,499,749
Buildings and structures	77,347,384	-	1,865,825	79,213,209
Office and terminal equipment	8,143,324	529,571	(29,092)	8,643,803
Motor vehicles	3,048,697	-	-	3,048,697
Leasehold improvements	1,944,379	-	-	1,944,379
Total capital assets, being depreciated	197,408,902	612,356	10,328,579	208,349,837
Less accumulated depreciation for:				
Vessels	(53,231,582)	(5,711,499)	-	(58,943,081)
Buildings and structures	(32,114,819)	(3,043,135)	46,988	(35,110,966)
Office and terminal equipment	(6,759,625)	(672,790)	29,092	(7,403,323)
Motor vehicles	(1,496,130)	(261,726)	-	(1,757,856)
Leasehold improvements	(1,864,502)	(47,924)	-	(1,912,426)
Total accumulated depreciation	(95,466,658)	(9,737,074)	76,080	(105,127,652)
Total capital assets, being depreciated, net	101,942,244	(9,124,718)	10,404,659	103,222,185
Total capital assets, net	$ 128,543,621	$ 768,699	$ -	$ 129,312,320

Capital asset activity for the year ended December 31, 2011, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, not being depreciated:				
Land	$ 19,103,154	$ 3,261,200	$ (1,652,533)	$ 20,711,821
Construction in progress	2,932,748	7,726,459	(4,769,651)	5,889,556
Total capital assets, not being depreciated	22,035,902	10,987,659	(6,422,184)	26,601,377
Capital assets, being depreciated:				
Vessels	103,308,256	3,616,862	-	106,925,118
Buildings and structures	77,347,384	-	-	77,347,384
Office and terminal equipment	8,083,762	875,228	(815,666)	8,143,324
Motor vehicles	2,844,029	620,349	(415,681)	3,048,697
Leasehold improvements	1,944,379	-	-	1,944,379
Total capital assets, being depreciated	193,527,810	5,112,439	(1,231,347)	197,408,902
Less accumulated depreciation for:				
Vessels	(47,936,528)	(5,295,054)	-	(53,231,582)
Buildings and structures	(29,161,707)	(2,953,112)	-	(32,114,819)
Office and terminal equipment	(6,854,194)	(720,998)	815,567	(6,759,625)
Motor vehicles	(1,686,791)	(225,020)	415,681	(1,496,130)
Leasehold improvements	(1,814,780)	(49,722)	-	(1,864,502)
Total accumulated depreciation	(87,454,000)	(9,243,906)	1,231,248	(95,466,658)
Total capital assets, being depreciated, net	106,073,810	(4,131,467)	(99)	101,942,244
Total capital assets, net	$ 128,109,712	$ 6,856,192	$ (6,422,283)	$ 128,543,621

3. STEAMSHIP BONDS OUTSTANDING

The Steamship Bonds outstanding at December 31, 2012 and 2011, are as follows:

	2012	2011
2001 Series A, including unamortized bond premium of $31 and $223 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 4.00% to 4.35%, requiring annual payments of principal beginning March 1, 2004 and semiannual interest payments through March 1, 2013	$ 690,031	$ 1,355,223
2003 Series A, including unamortized bond premium of $64,292 and $93,965 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 2.50% to 4.50%, requiring annual payments of principal beginning March 1, 2004 and semiannual interest payments through March 1, 2015	2,094,292	2,753,965
2004 Series A, including unamortized bond premium of $0 and $10,688 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 3.00% to 5.00%, requiring annual payments of principal beginning March 1, 2005 and semiannual interest payments through March 1, 2012	-	1,180,688
2004 Series B, including unamortized bond premium of $774,899 and $868,826 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 3.00% to 5.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2021	30,754,899	31,443,826
2005 Series A, including unamortized bond premium of $188,296 and $247,758 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 2.95% to 5.00%, requiring annual payments of principal beginning March 1, 2008 and semiannual interest payments through March 1, 2016	5,828,296	7,267,758
2009 Series A, including unamortized bond premium of $155,451 and $174,485 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 2.50% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2021	4,675,451	4,939,485
2009 Series B, including unamortized bond premium of $109,519 and $116,293 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 2.00% to 4.00%, requiring annual payments of principal beginning March 1, 2011 and semiannual interest payments through March 1, 2029	9,374,519	9,756,293
2011 Series A, including unamortized bond premium of $305,581 and $347,730 at December 31, 2012 and 2011, respectively, bearing interest at rates ranging from 2.00% to 3.00%, requiring annual payments of principal beginning March 1, 2017 and semiannual interest payments through March 1, 2020	6,305,581	6,347,730
Deferred loss arising from partial defeasance of 1992 Series B, 1994 Series A and 1995 Series A Steamship Bonds (net of accumulated amortization of $1,842,621 and $1,775,211 in 2012 and 2011, respectively)	(119,147)	(186,557)
Total Steamship Bonds	**59,603,922**	64,858,411
Less bonds due within one year	**(5,275,000)**	(5,060,000)
Total Steamship Bonds - excluding current portion	**$ 54,328,922**	$ 59,798,411

3. STEAMSHIP BONDS OUTSTANDING…*continued*

2001 Series A Steamship Bonds On March 1, 2001, the Authority issued $5,800,000 of 2001 Series A Steamship Bonds with interest rates ranging from 4.00% to 4.35%. The proceeds of the bonds were used for the following purposes: (i) for refunding the principal of $3,000,000 bond anticipation notes of the Authority, the proceeds of which were used to acquire a parcel of land located in Fairhaven, Massachusetts, to provide for an offsite maintenance facility (the "Maintenance Facility"); (ii) for the design and renovation of the Maintenance Facility; (iii) to acquire a passenger vessel, the *M/V Schamonchi*, including certain costs related to such acquisition; and (iv) to pay for costs of issuing the bonds.

2003 Series A Steamship Bonds On March 1, 2003, the Authority issued $9,315,000 of 2003 Series A Steamship Bonds with interest rates ranging from 2.50% to 4.50%. The proceeds of the bonds were used to refund $3,260,000 of the Authority's 1992 Series B Bonds maturing in the years 2004 through 2007 and to advance refund $5,670,000 of the Authority's 1995 Series A Bonds maturing in the years 2006 through 2015 and to pay for costs of issuing the bonds. The portion of the bond proceeds used to refund the prior bond obligations was used to purchase U.S. Government obligations, which were deposited into an irrevocable trust to pay the scheduled principal and interest on the 1992 Series B Steamship Bonds and the 1995 Series A Steamship Bonds. As a result, these bonds are considered defeased by the Authority. Accordingly, the trust account assets and the liability for the defeased bonds have not been included in the Authority's financial statements. Prior refunded obligations outstanding at December 31, 2012 and 2011, totaled $2,025,000 and $2,630,000, respectively.

2004 Series A Steamship Bonds On September 30, 2004, the Authority issued $7,265,000 of 2004 Series A Steamship Bonds with interest rates ranging from 3.00% to 5.00%. The proceeds were used to advance refund $7,426,000 of the Authority's 1994 Series A Steamship Bonds, maturing in the years 2005 through 2012, and to pay the cost of issuance. The portion of the bond proceeds used to refund the prior bond obligations was used to purchase U.S. Government obligations, which were deposited into an irrevocable trust to pay the scheduled principal and interest on the 1994 Series A Steamship Bonds. As a result, these bonds are considered defeased by the Authority. Accordingly, the trust account assets and the liability for the defeased bonds have not been included in the Authority's financial statements. The Authority designated the refunded bonds for redemption on November 1, 2004, and the defeased bonds have subsequently been retired. This transaction resulted in a book loss of $299,824, which includes a decrease in the total bonds outstanding at interest rates that are lower than the original bonds that were refunded. That loss is being amortized over the life of the 2004 Series A Steamship Bonds.

2004 Series B Steamship Bonds On December 21, 2004, the Authority issued $31,150,000 of 2004 Series B Steamship Bonds with interest rates ranging from 3.00% to 5.00%. The proceeds were used for the following purposes: (i) for the design, construction, and delivery of a new 255-foot passenger/vehicle vessel, the *M/V Island Home*, with a capacity of approximately 1,200 passengers and 76 cars; and (ii) to pay the cost of issuance.

2005 Series A Steamship Bonds On October 6, 2005, the Authority issued $9,380,000 of 2005 Series A Steamship Bonds with interest rates ranging from 2.95% to 5.00%. The proceeds were used for the following purposes: (i) for the design, construction, and delivery of a new high-speed passenger-only vessel, the *M/V Iyanough*, with a capacity of approximately 350 passengers; and (ii) to pay the cost of issuance.

2009 Series A Steamship Bonds On July 21, 2009, the Authority issued $5,000,000 of 2009 Series A Steamship Bonds with interest rates ranging from 2.50% to 4.00%. The proceeds of the bonds were used to refund $5,000,000 in bond anticipation notes, the proceeds of which were used: (i) for the reconstruction and refurbishment of the *M/V Nantucket*, including without limitation the reconstruction of the deck, the reconstruction of the bridge, and the refurbishment of the vessel's seating and eating areas; and (ii) to pay the cost of issuance.

3. STEAMSHIP BONDS OUTSTANDING…*continued*

2009 Series B Steamship Bonds On December 1, 2009, the Authority issued $10,000,000 of 2009 Series B Steamship Bonds with interest rates ranging from 2.00% to 4.00%. The proceeds are to be used for the following purposes: (i) to acquire four (4) parcels of land located in Falmouth, Massachusetts, for parking and other purposes ("Project A"); (ii) the reconstruction of vessel berthing slips in Hyannis, Massachusetts, for operational efficiency purposes, including without limitation the reconstruction of dolphins, wharves, and transfer bridge and gangways ("Project B" and together with Project A, the "Projects"); and (iii) to pay the cost of issuance.

2011 Series A Steamship Bonds On December 13, 2011, the Authority issued $6,000,000 of 2011 Series A Steamship Bonds with interest rates ranging from 2.00% to 3.00%. The proceeds of the bonds are to be used for (i) the reconstruction and refurbishment of the *M/V Eagle*, including without limitation the replacement of decking, doors and windows, the reconstruction of the snack bar, refurbishment of the vessel's seating and eating areas, and the installation of a marine evacuation slide; and (ii) to pay the cost of issuance.

Arbitrage The Authority, as of December 31, 2012, has expended approximately $4,841,000 of the $5,000,000 of the 2009 Series B Steamship Bonds proceeds allocable to Project A, for the acquisition of land in Falmouth, Massachusetts. Pursuant to the applicable Internal Revenue Service laws and regulations relating to the issuance of tax-exempt bonds, the Authority must rebate to the federal government any earnings on bond proceeds prior to expenditure, unless the issue qualifies for an exception to the rebate requirement. The applicable exception for Project A requires that the bond proceeds for such project be spent within six months of the date of issue. If the Authority does not spend the proceeds within such period, the Authority will make the required rebate calculation and pay the rebate due, if any, to the federal government. The Authority meets such rebate exception with respect to Project A.

In addition, the Authority, as of December 31, 2010, had expended all of the $5,000,000 of the 2009 Series B Steamship Bonds proceeds allocable to Project B for the reconstruction of vessel berthing slips in Hyannis, Massachusetts. The applicable exception to the rebate requirement with respect to Project B requires that the bond proceeds allocable to such project be spent subject to certain interim milestones, within 24 months of the date of issue. The Authority meets such rebate exception with respect to Project B.

Scheduled Debt Service Requirements The annual scheduled debt service requirements of all Steamship Bonds outstanding at December 31, 2012, are as follows, exclusive of bonds defeased:

YEARS ENDING DECEMBER 31	PRINCIPAL PAYMENTS	INTEREST PAYMENTS	TOTAL PAYMENTS
2013	$ 5,275,000	$ 2,258,070	$ 7,533,070
2014	5,505,000	2,039,687	7,544,687
2015	5,740,000	1,816,381	7,556,381
2016	5,980,000	1,582,950	7,562,950
2017	6,215,000	1,339,125	7,554,125
2018–2022	24,840,000	2,898,738	27,738,738
2023–2027	3,130,000	606,900	3,736,900
2028–2029	1,440,000	58,200	1,498,200
TOTAL	**$58,125,000**	**$12,600,051**	**$70,725,051**

Principal payments reported above are exclusive of the deferred loss arising from prior bond defeasances of $(119,147) and unamortized bond premium of $1,598,069.

3. STEAMSHIP BONDS OUTSTANDING…*continued*

Bonds payable activity for the year ended December 31, 2012, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 63,185,000	$ -	$ (5,060,000)	$58,125,000	$ 5,275,000
Less deferred amounts:					
For issuance premiums	1,859,968	-	(261,899)	1,598,069	-
On refunding	(186,557)	-	67,410	(119,147)	-
Total bonds payable	**$ 64,858,411**	**$ -**	**$ (5,254,489)**	**$ 59,603,922**	**$ 5,275,000**

Bonds payable activity for the year ended December 31, 2011, was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
Bonds payable:					
Steamship Bonds	$ 62,040,000	$ 6,000,000	$ (4,855,000)	$63,185,000	$ 5,060,000
Less deferred amounts:					
For issuance premiums	1,785,427	347,730	(273,189)	1,859,968	-
On refunding	(316,072)	-	129,515	(186,557)	-
Total bonds payable	**$ 63,509,355**	**$ 6,347,730**	**$ (4,998,674)**	**$ 64,858,411**	**$ 5,060,000**

4. *LEASE COMMITMENTS*

Operating Leases The Authority has several noncancelable operating lease commitments at December 31, 2012, with terms in excess of one year. Future minimum lease payments under operating leases are as follows:

YEARS ENDING DECEMBER 31	
2013	$ 431,804
2014	403,112
2015	305,512
2016	165,512
2017	107,585
2018–2022	418,905
2023–2024	139,500
TOTAL	**$ 1,971,930**

Aggregate rental expense for the years ended December 31, 2012 and 2011, was $708,669 and $717,066, respectively.

5. DEPOSITS AND INVESTMENTS

The Steamship Authority's Board has the sole responsibility for establishing and revising investment policy. In June 2003, the Authority adopted the "Investment Policy" for all of its operations funds and special-purpose restricted funds. The investment strategy is to invest substantially in short-term securities. Permitted investments will consist of obligations issued or secured by the U.S. Government or agencies of the U.S. Government and overnight repurchasing agreements with banks. The Authority can also invest in the Massachusetts Municipal Depository Trust ("MMDT") or in mutual funds composed of the above types of investments. The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The Authority's fair value of its investment in the MMDT represents the value of the pool's shares. In March 2011, the Steamship Authority's Board reaffirmed the "Investment Policy".

Custodial Credit Risk Custodial credit risk exists for cash deposits when, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority does not have a formal policy with regard to custodial credit risk but generally invests in securities or financial institutions which have either short-term rating of "A" or government securities of "AAA." Bank deposits are fully FDIC insured as of December 31, 2012. The total amounts of Authority deposits in financial institutions, per the bank statements, at December 31, 2012 and 2011, respectively, are as follows:

	2012	2011
Balance per banks	$ 7,534,340	$ 30,850,931
Deposits covered by:		
Federal Depository Insurance Corporation	(4,691,993)	(1,920,030)
Bank trust and custody agreements	(2,842,347)	(28,930,901)
TOTAL UNINSURED AND UNCOLLATERALIZED DEPOSITS	**$ -**	**$ -**

Interest Rate Risk and Credit Risk Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Authority does not have a formal policy with regard to interest rate risk. The majority of the Authority's investments are in short-term U.S. Government instruments, which are expected to maintain a constant dollar value despite changes in interest rates, due to the short-term period for which such investments are held.

Credit risk exists when there is a possibility that the issuer of an investment may be unable to fulfill its obligations. The Authority does have a formal policy with regard to credit risk, as the diversity of the investment portfolio may be no more than 25% invested in securities of a single issuer, except for obligations of the U.S. Government.

	2012	INVESTMENT MATURITIES (IN YEARS)			
INVESTMENT TYPE	**FAIR VALUE**	**LESS THAN 1**	**1-5**	**6-10**	**MORE THAN 10**
MMDT	$ 28,002,977	$ 28,002,977	$ -	$ -	$ -
Trust and custody agreements	2,842,347	2,842,347	-	-	-
Repurchase agreements	5,329,733	5,329,733	-	-	-
TOTAL	**$ 36,175,057**	**$ 36,175,057**	**$ -**	**$ -**	**$ -**

	2011	INVESTMENT MATURITIES (IN YEARS)			
INVESTMENT TYPE	**FAIR VALUE**	**LESS THAN 1**	**1-5**	**6-10**	**MORE THAN 10**
U.S. Treasuries	$ 3,000,000	$ 3,000,000	$ -	$ -	$ -
Trust and custody agreements	28,930,901	28,930,901	-	-	-
Repurchase agreements	5,391,449	5,391,449	-	-	-
TOTAL	**$ 37,322,350**	**$ 37,322,350**	**$ -**	**$ -**	**$ -**

5. DEPOSITS AND INVESTMENTS…*continued*

At December 31, 2012 and 2011, the Authority's investments consisted of uninsured and uncollateralized U.S. Government agency securities held in the name of the Authority by a financial institution. The Authority maintains cash, cash equivalents, and investments available for use by all funds, in the manner provided below, as set forth by the Authority's Enabling Act, as amended.

Monies in the Revenue Fund on the last day of the preceding month shall be transferred:

- **To the Operations Fund** — such amount, if available, as may be required to pay the cost of maintenance, repair, and operation of the Steamship Line for the current month and the next ensuing month and to maintain working capital for such purposes in an amount not to exceed one thirty-sixth of the operating budget for the then-current fiscal year;
- **To the Sinking Fund** — such amount, if any, as may be required for the payment of the interest on and the principal of all bonds as the same shall become due and payable;
- **To the Property Replacement Fund** — such amount, if any, as may be deemed necessary or advisable for depreciation of property and for obsolescence and losses with respect to property sold, destroyed, or abandoned (the Authority's current policy is to limit any transfers to the Property Replacement Fund in any given year to the amount of the prior year's depreciation expense);
- **To the Reserve Fund** — such amount, if any, as may be required to make the balance therein equal to 5% of the principal amount of all outstanding bonds, exclusive of bonds considered as defeased, or $600,000, whichever is greater; and
- **To the Bond Redemption Fund** — all of the remaining revenue to be used within a reasonable time for the purchase or redemption of bonds or, in the Authority's discretion, to be transferred to the Property Replacement Fund or to the Capital Improvement Fund to be used for any purposes for which bonds may be issued.

Unexpended proceeds from Steamship Bonds are reported as assets of the Capital Improvement Fund.

Neither the Enabling Act nor the bond resolutions place limitations on the nature of the deposits and investments of the Authority. The Authority's policies are to maintain deposits (including demand deposits, money markets, and certificates of deposit) in financial institutions and to make investments in U.S. Government securities.

Cash, Cash Equivalents, and Short-Term Investments The total amount of the Authority's cash and cash equivalents, as well as the Authority's investments in U.S. Government securities, principally Treasury bills, stated at fair value, at December 31, 2012 and 2011, respectively, are as follows:

	2012	2011
Cash, including trust and custody agreements	$ 4,706,583	$ 30,083,741
Overnight repurchase agreements	5,329,733	5,391,449
MMDT	28,002,977	-
U.S. Government securities considered to be cash equivalents	-	3,000,000
TOTAL	**$ 38,039,293**	**$ 38,475,190**

Cash and cash equivalents reported in the accompanying balance sheets as of December 31, 2012 and 2011, respectively, are as follows:

	2012	2011
Current assets, cash and cash equivalents	$ 9,694,323	$ 9,544,289
Special-purpose restricted funds	28,344,970	28,930,901
TOTAL	**$ 38,039,293**	**$ 38,475,190**

Treasury bill investments are held in the name of the Authority by a financial institution (counterparty).

6. PENSION PLANS

The Authority provides retirement benefits to its employees through various defined benefit and defined contribution pension plans.

Defined Benefit Pension Plans Sponsored by the Authority

DESCRIPTION OF PLANS

General Information The Authority has in effect a single employer, defined benefit pension plan established in 1968 for eligible nonunion employees (the "Nonunion Plan") and a single employer, defined benefit pension plan established in 1983 for the Authority's Licensed Deck Officers (the "L.D.O. Plan") (collectively, the "Plans").

Administration of the Plans The Plans are administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Plans and executes related transactions under custodial agreements with the Plans and the Authority. Separate financial statements are not issued for the Plans.

Participation and Vesting Employees not under collective bargaining agreements whose customary employment with the Authority is for at least 30 hours per week and are employed or expected to be employed on a year-round basis may participate in the Nonunion Plan.

All licensed deck officers (captains, pilots, and mates) are eligible to participate in the L.D.O. Plan.

Participants' benefits become fully vested after five years of service in both the Nonunion Plan and the L.D.O. Plan. Benefit payments are made to participants of the Plans or their beneficiaries in varying amounts according to the provisions of the Plans.

Plan Amendment and Termination The Plans may be amended or terminated, in whole or in part, at any time by the Authority, provided that no such modification, amendment, or termination shall be made that would deprive a current participant of rights or benefits provided under the Plans.

NORMAL RETIREMENT BENEFITS

Nonunion Plan The normal form of retirement benefit is a monthly annuity payable for life with payments guaranteed for five years (optional forms of payment may be elected in advance of retirement), commencing on the normal retirement date. The normal retirement date for participants who joined the Nonunion Plan prior to March 1, 1992, is the earliest of (a) attainment of age 65 and completion of 20 years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 75% of average compensation for the last three years multiplied by an accrued benefit adjustment (as defined in the Nonunion Plan). The normal retirement date for participants who joined the Nonunion Plan on or after March 1, 1992, is the earliest of (a) attainment of age 65 and completion of five years of service, (b) attainment of age 62 and completion of 25 years of service, or (c) attainment of age 60 and completion of 30 years of service. The amount of benefits is equal to 2.5% of average compensation multiplied by years of service (maximum of 30 years). The normal retirement date for participants who join the Nonunion Plan on or after March 1, 2011, is the attainment of age 65 and completion of 10 years of service. The amount of benefits is equal to 2.0% of average compensation multiplied by years of service (maximum of 30 years). Average compensation is defined as average monthly pay received during the three-year period preceding the normal retirement date.

Participants in the Nonunion Plan prior to March 1, 1992, are entitled to a benefit based upon the greater of the benefits allowed under the plan as it existed prior to March 1, 1992 or the benefits allowed to participants who join on or after March 1, 1992.

6. PENSION PLANS…*continued*

Defined Benefit Pension Plans Sponsored by the Authority…continued

Normal Retirement Benefits…continued

As of March 1, 2002, the Nonunion Plan was amended to include an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan. The cost of living increase is based on half of the percentage increase in the consumer price index from year to year with the aggregate cost of living increase not to exceed 50% of the value of the participant's benefit as of the annuity starting date.

As of March 1, 2011, the Nonunion Plan was amended to exclude an annual cost of living increase to participants receiving monthly payments under the Nonunion Plan who became participants on or after March 1, 2011. No lump sum optional benefit is available for participants who became participants on or after March 1, 2011.

L.D.O. Plan The normal form of retirement benefit is a monthly annuity payable for life (optional forms may be elected in advance of retirement), commencing on the normal retirement date. The normal retirement date is the later of age 65 or upon completion of five years of service. The amount of benefits is equal to the sum of $27.73 multiplied by credited service before January 1, 1975; $38.83 multiplied by credited service on and after January 1, 1975, and before January 1, 1979; $41.60 multiplied by credited service on and after January 1, 1979, and before January 1, 1981; $44.38 multiplied by credited service on and after January 1, 1981, and before January 1, 1985; and 1.93% of employer contributions on or after January 1, 1985.

DISABILITY BENEFITS

Nonunion Plan There are no disability benefits payable under the Nonunion Plan.

L.D.O. Plan Participants who become disabled and have five years of credited service are eligible to receive disability benefits. Disability benefits are payable monthly until normal retirement, death, or recovery, and a deferred annuity is payable at the normal retirement date. Disability benefits are equal to accrued benefits at the date of disability.

EARLY RETIREMENT BENEFITS

Nonunion Plan Early retirement benefits are in the same form as normal retirement benefits and commence on the early retirement date. The early retirement date must be within the 10-year period preceding the normal retirement date. Benefits are reduced for each year that the early retirement date precedes the normal retirement date.

L.D.O. Plan Early retirement benefits are in the same form as normal retirement benefits and commence on the early retirement date. The early retirement date occurs at the attainment of age 55 and completion of 10 years of service. Benefits are reduced by one-half of 1% for each month the early retirement date precedes the attainment of age 65.

Funding Policy and Annual Pension Cost (APC) The contribution requirements of members and the Authority are established by the Authority and collective bargaining agreements. Participants in the Nonunion Plan are required to make contributions equal to 3% of their monthly compensation. No employee contributions are required under the L.D.O. Plan. The Authority currently contributes 15% of annual covered payroll for the Nonunion Plan and $8 per day based on days assigned for the L.D.O. Plan. The annual required contribution ("ARC") for the current year was determined as part of the actuarial valuation as of March 1, 2012, and January 1, 2012 for the Nonunion Plan and L.D.O. Plan, respectively, using the Entry Age Normal-Frozen Initial Liability method. The actuarial assumptions included (a) 6.75% and 7.0% investment rate of return for the Nonunion Plan and L.D.O. Plan, respectively, and (b) salary increases are assumed to vary by age according to Table S-5 from the Actuary's Pension Handbook, plus 1.75% per year until retirement for the Nonunion Plan. No salary increases were assumed for the L.D.O. Plan as benefits are not based upon compensation. The actuarial value of assets was determined using market value adjusted by spreading the expected value minus the actual value over four years.

6. PENSION PLANS…*continued*

Defined Benefit Pension Plans Sponsored by the Authority…continued

Annual Pension Cost and Net Pension Obligation The Authority's annual pension cost and net pension obligation for the current year, as determined by the actuarial valuations based upon the individual plan's year, were as follows:

NONUNION PLAN	FEBRUARY 29, 2012	FEBRUARY 28, 2011
Annual required contribution (ARC)	$ 948,441	$ 1,354,844
Interest on net pension obligation	81,385	36,629
Adjustment to annual required contribution	(148,335)	(63,137)
ANNUAL PENSION COST (APC)	881,491	1,328,336
Contributions made	736,787	731,587
CHANGE IN NET PENSION OBLIGATION	(144,704)	(596,749)
NET PENSION LIABILITY, Beginning of year	(1,085,132)	(488,383)
NET PENSION LIABILITY, End of year	**$ (1,229,836)**	$ (1,085,132)

L.D.O. PLAN	DECEMBER 31, 2011	DECEMBER 31, 2010
Annual pension cost (APC)	$ 209,734	$ 121,232
Contributions made	123,904	121,232
Percentage of APC contributed	59%	100%

THREE-YEAR TREND INFORMATION

FISCAL YEARS ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
NONUNION PLAN:			
February 28, 2010	$1,272,329	57%	$ 488,383
February 28, 2011	1,328,336	55	1,085,132
February 29, 2012	881,491	84	1,229,836
L.D.O. PLAN:			
December 31, 2009	$ 124,320	100%	$ -
December 31, 2010	121,232	100	-
December 31, 2011	209,734	59	85,830

FUNDED STATUS AND FUNDING PROGRESS

Nonunion Plan As of March 1, 2012, the most recent actuarial valuation date, the Nonunion Plan was 69.8% funded. The actuarial accrued liability (AAL) for benefits was $20,657,993 and the actuarial value of assets was $14,418,382, resulting in an unfunded actuarial accrued liability (UAAL) of $6,239,611. The covered payroll (annual payroll of active employees covered by the plan) was $4,286,564, and the ratio of the UAAL to the covered payroll was 145.6%.

L.D.O. Plan As of January 1, 2012, the most recent actuarial valuation date, the L.D.O. Plan was 67.0% funded. The actuarial accrued liability for benefits was $5,615,834 and the actuarial value of assets was $3,763,704, resulting in an UAAL of $1,852,130. The covered payroll (annual payroll of active employees covered by the plan) was $3,543,094, and the ratio of the UAAL to the covered payroll was 52.3%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

6. PENSION PLANS…*continued*

***Defined Benefit Pension Plans Sponsored by the Authority**…continued*

ACTUARIAL METHODS AND ASSUMPTIONS

Nonunion Plan In the March 1, 2012 actuarial valuation, the entry age normal-frozen initial liability actuarial cost method was used. The actuarial assumptions included (a) 6.75% investment rate of return (net of investment expenses), (b) projected salary increases from Table S-5 from the Actuary's Pension Handbook plus 1.75% per year, (c) cost of living adjustments of one-half of consumer price index for the prior calendar year, not to exceed 150% of original benefit, and (d) 5% adjusted for the rate adjustment for size and special charges, if applicable. The actuarial value of assets was determined using techniques that spread the expected value minus the actual value over a four-year period. The UAAL is being amortized as a level-dollar-closed period.

L.D.O. Plan In the January 1, 2012 actuarial valuation, the entry age normal-frozen initial liability actuarial cost method was used. The actuarial assumptions included (a) 7% investment rate of return (net of investment expenses), (b) no projected salary increases, (c) no adjustments for cost of living, and (d) expenses are deducted from the fund according to expense scales in the Service Agreement. The actuarial value of assets was determined using techniques that spread the expected value minus the actual value over a four-year period. The UAAL is being amortized as a level-dollar-closed period.

Defined Contribution Plans Sponsored by the Authority

The Authority also has a defined contribution plan for its licensed deck officers. The Authority is required to contribute an amount equal to 10.75% of base weekly earnings for each employee. The Authority's required and actual contributions aggregated $371,218 and $382,293 for 2012 and 2011, respectively.

Administration of the Plan The Plan is administered by the Authority. The Trustee, Principal Mutual Life Insurance Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting All licensed deck officers (captains, pilots, and mates) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions No employee contributions are made under the Plan.

The Authority also has a defined contribution plan for its permanent parking lot employees/shuttle bus drivers. The Authority is required to contribute an amount equal to 5.5% of base weekly earnings for each permanent parking lot employee/shuttle bus driver prior to May 27, 2011. Effective May 28, 2011, the Authority is required to contribute an amount equal to 5.0% of base weekly earnings for each permanent parking lot employee/shuttle bus driver. The Authority's required and actual contributions for this plan aggregated $38,562 and $37,587 for 2012 and 2011, respectively.

Administration of the Plan The Plan is administered by the Authority. The Trustee, Wachovia Securities LLC, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting All permanent parking lot employees/shuttle bus drivers are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions No employee contributions are made under the Plan.

The Authority also has a defined contribution plan for its permanent security employees. The Authority is required to contribute an amount equal to 5% of base weekly earnings for each security employee. The Authority's required and actual contributions for this plan aggregated $15,439 and $14,787 for 2012 and 2011, respectively.

6. PENSION PLANS…*continued*

Defined Contribution Plans Sponsored by the Authority…continued

Administration of the Plan The Plan is administered by the Authority. The Trustee, Wachovia Securities LLC, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting All permanent security employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions No employee contributions are made under the Plan.

The Authority also has a defined contribution plan for its permanent unlicensed vessel employees. The Authority is required to contribute an amount equal to 10% of base weekly earnings effective April 15, 2000. Prior to that, the Authority was required to contribute an amount equal to 9% of base weekly earnings for the period April 17, 1999 through April 14, 2000; 7.5% from April 18, 1998 through April 16, 1999; and 6% through April 17, 1998. The Authority's required and actual contributions aggregate $734,710 and $779,873 for 2012 and 2011, respectively.

Administration of the Plan The Plan is administered by the Authority. The Trustee, Prudential Trust Company, holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan and the Authority.

Participation and Vesting All permanent unlicensed vessel employees are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions No employee contributions are made under the Plan.

Multiemployer Pension Plans

The Authority provides benefits to certain of its employees by making contributions to various multiemployer pension plans. Such plans are available to all full-time union employees not covered by the Authority's single employer pension plans, and their eligibility in the plans commences upon employment. Employees' benefits become fully vested upon completion of between five and fifteen years of vesting service, as defined in the Plans. The covered payroll of such employees was $9,474,967, $6,739,164, and $6,603,464 in 2012, 2011, and 2010, respectively.

Funding Policy The Authority makes contributions to the multiemployer plans annually based on the Plans' funding requirements. Generally, such funding requirements are based on specified contribution rates times employees' person-days and person-hours of service (as defined in the Plans). The Authority's contributions to the Plans met the contribution requirements in 2012, 2011, and 2010, and aggregated $1,538,133 (16.2% of covered payroll for employees participating in the Plans in 2012), $1,300,647 (19.3% of covered payroll for employees participating in the Plans in 2011), and $1,488,710 (22.5% of covered payroll for employees participating in the Plans in 2010).

In March 2011, the Steamship Authority entered into successor collective bargaining agreements, with Teamster Local 59, with respect to its maintenance employees and its agency and terminal employees. Terms of the agreements allow the Authority to withdraw from the New England Teamsters and Trucking Industry Pension Fund (the "Fund"). The agreements provide that the Authority shall fully satisfy its withdrawal liability to the Fund by making 300 monthly withdrawal liability payments, each in the amount of $83,333, beginning October 2011. In addition, the Authority will enter into the New England Teamsters and Trucking Industry Pension Fund "New Employer Pool." The Authority's participation in the New Employer Pool requires that any future withdrawal liability be computed by the Direct Attribution Method under terms of the Employee Retirement Income Security Act of 1974 (ERISA §4211). In 2012, the Authority made payments totaling $1,000,000 towards the withdrawal liability. In 2011, the Authority made payments totaling $333,333 towards the withdrawal liability. Withdrawal liability is recorded in the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets using the present value of the obligation based upon incremental borrowing costs. As this transaction is unusual in nature and within the control of management it is reported as a "Special Item" in the Statements of Revenues, Expenses, and Changes in Net Assets.

6. PENSION PLANS…*continued*

Multiemployer Pension Plans…continued

The Authority contributes to a multiemployer defined contribution plan for its licensed engineering officers. The Authority is required to contribute an amount equal to 10.667% of base weekly earnings for each employee on the permanent Chief Engineers roster as of August 1, 2008, and $12.50 per day for each engineering officer not on the permanent Chief Engineers roster as of August 1, 2008. In January 2012, the Authority discontinued contributing to the multiemployer defined contribution plan and instead began contributing to a multiemployer pension plan, administered by the Marine Engineers Beneficial Association Pension Trust at a rate of 11.7% of earnings. The Authority's required and actual contributions to the defined contribution plan aggregated $31,620, $209,308, and $203,093, for 2012, 2011, and 2010, respectively.

Administration of the Plan The Plan is administered by the Marine Engineers Beneficial Association Pension Trust, Trustee. The Trustee holds the investment securities of the Plan and executes related transactions under custodial agreements with the Plan.

Participation and Vesting All engineering officers (chief engineers, third assistant engineers) are eligible to participate in the Plan. Participants are 100% vested at all times.

Employee Contributions No employee contributions are made under the Plan.

Deferred Compensation Plan

The Authority has a deferred compensation plan, in accordance with Internal Revenue Code Section 457, available to all regular full-time employees. Under the terms of the plan, employees who wish to participate may have contributed up to a maximum of $17,000 in 2012 and $16,500 in 2011 of their annual compensation. The Authority did not contribute to the plan in 2012 or 2011.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description In addition to the pension benefits described in Note 6, the Authority provides postemployment health care benefits for eligible employees who render at least 20 years of service and attain age 62 while in service until the employee is eligible for Medicare. The benefits, benefit level, employee contributions, and employer contributions are governed by the Authority and collective bargaining agreements. As of December 31, 2012, the actuarial valuation date, approximately 271 active employees and 5 retirees meet eligibility requirements. The plan does not issue separate stand-alone financial statements.

Benefits Provided Medical coverage, excluding dental, under the group health insurance plan for regular full-time nonunion employees, licensed deck officers, and unlicensed vessel personnel with 20 or more years of service who retire after reaching age 62 will continue until the employee is eligible for Medicare. Coverage for the dependents of such regular full-time employees will also continue during this period provided that the employee pays 50% of the enrollment cost as established annually by the Plan administrator. Once the retired employee is entitled to Medicare, health care coverage for the employee's spouse will continue as provided for under COBRA, provided that the employee pays 100% of the enrollment costs as established annually by the Plan administrator.

Funding Policy Effective January 1, 2011, the retired employee must pay 10% of the enrollment cost (the "working rate") as established annually by the Plan administrator. Effective January 1, 2012, the nonunion retired employee must pay 15% of the enrollment cost (the "working rate") as established annually by the Plan administrator. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)...*continued*

Annual OPEB Costs and Net OPEB Obligation The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period not to exceed 30 years. The components of the Authority's annual OPEB cost for the years ended December 31, 2012 and 2011, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation based on an actuarial valuation as of December 31, 2012 and 2011, are as follows:

	2012	2011
Annual required contribution (ARC)	$ 178,167	$ 207,471
ARC adjustment	25,877	20,901
Interest on net OPEB obligation	(24,720)	(19,967)
Annual OPEB cost	179,324	208,405
Contributions made	(82,984)	(84,014)
INCREASE IN NET OPEB OBLIGATION	96,340	124,391
NET OPEB OBLIGATION, Beginning of year	646,915	522,524
NET OPEB OBLIGATION, End of year	**$ 743,255**	$ 646,915

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011, and 2010 are as follows:

FISCAL YEARS ENDED	ANNUAL OPEB COST	PERCENTAGE ANNUAL OPEB CONTRIBUTION	NET OPEB OBLIGATION
December 31, 2010	$ 196,272	5.90%	$ 522,524
December 31, 2011	208,405	40.30	646,915
December 31, 2012	179,324	46.30	743,255

Funded Status and Funding Progress The funded status of the plan as of December 31, 2012, was as follows:

Actuarial accrued liability (AAL)	$ 2,130,447
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	2,130,447
Funded ratio (actuarial value of plan assets/AAL)	- %
Covered payroll (active plan members)	17,170,992
UAAL as a percentage of covered payroll	12.4 %

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)*...continued*

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 actuarial valuation, the projected unit credit method was used. The actuarial value of assets was not determined, as the Authority has not funded its obligation in advance. The actuarial assumptions included a 4.0% investment rate of return and an annual healthcare cost trend rate of 7.0% initially, reduced by 0.5% per year to an ultimate rate of 5.0% after four years. Both rates include a 3.0% general inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis.

8. COMMITMENTS

Construction in progress at December 31, 2012 consisted of expenditures by the Authority for various construction projects, which management expects will be completed in the years 2013 and 2014. At December 31, 2012, remaining construction commitments for these projects aggregated $1,336,097. In addition, dry-docking and overhaul commitments for vessels aggregated $932,401.

In October 2009, the Authority entered into a Purchase and Sale Agreement with The Four Stones, LLC for the purchase of four properties located in Falmouth, Massachusetts. As of December 31, 2012, the parties have finalized the transfer of three of these properties and the Authority is responsible for a balance of $3,415,191 on the remaining property.

9. CONTINGENCIES

In the normal course of operations, the Authority has been named in various claims and litigation. Based upon information available to counsel and the Authority, management believes that the ultimate outcome of these claims and litigations will not have a material adverse effect on the Authority's financial position.

10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased commercial insurance for these risks, except for those risks identified in the following paragraph, which the Authority accounts for in accrued expenses.

Group Health The Authority has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The total charge is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

10. RISK MANAGEMENT…*continued*

Group Health…continued

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are recorded as a component of accounts payable in the Authority's statement of net assets. Claim liabilities are calculated based on recent claim settlement trends, including frequency and amount of payouts. The calculation includes a weighted three year average of claims paid by group, with an adjustment made to claims to account for increases in medical cost based on the Consumer Price Index-Medical ("CPI-Med"). The Authority carries stop-loss insurance on individual medical claims in excess of $150,000 per person and approximately $6,200,000 in the aggregate, up to a maximum aggregate benefit payment of $1,000,000 per person per year. An analysis of claims activities is presented below:

	2012	2011
Liability, January 1	$ 729,532	$ 825,908
Current-year charges and changes in estimate	4,974,046	4,185,618
Actual claims paid	(4,778,037)	(4,281,994)
Liability, December 31	**$ 925,541**	$ 729,532

Such amounts are recorded as a component of current liabilities in the statements of net assets.

11. HEDGE PROGRAM

The Authority manages a fuel oil hedging program, which is intended to take advantage of market conditions to cap fuel expense. The objectives of the program are to (1) identify exposure to movements in energy prices, (2) understand the impact on the Authority's financial position, (3) employ all reasonable and prudent measures to mitigate the impact of price movements, and (4) manage the volatility of energy costs to acceptable levels. The hedge program attempts to transform the unacceptable risks of skyrocketing energy prices into an acceptable form, similar to an insurance policy.

The Steamship Authority's hedging program operates under a nonspeculative philosophy and transactions are limited to expected energy volumes anticipated in the normal course of operations. The Authority's hedging strategy may include fixed-price swaps, collars, or caps. The program is designed to allow the Authority to benefit from prices that fall below the cap while offering some protection that pricing will not exceed the cap price.

As of December 31, 2012, the Authority had executed hedging transactions for 2,100,000 gallons of fuel out of the approximately 2,800,000 gallons of fuel that is expected to be used in 2013. The cost of these call options totaled $491,266. As the Authority's hedging is for fuel oil used in the operation of its vessels and the monthly call options are for quantities lower than the quantities reasonably expected to be consumed, these activities would be subject to the exclusion provided for in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and not required to be reported as derivative instruments.

12. SUBSEQUENT EVENTS

The Authority evaluated subsequent events through April 15, 2013, when the financial statements were available to be issued.

Schedule of Funding Progress of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority

PENSION PLANS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL) (2) MINUS (1)	(4) FUNDED RATIO (1) DIVIDED BY (2)	(5) COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL (3) DIVIDED BY (5)
NONUNION PLAN:						
March 1, 2003	$ 8,858,470	$ 10,678,880	$ 1,820,410	83.0 %	$ 3,183,884	57.2 %
March 1, 2004	9,569,680	11,433,369	1,863,689	83.7	3,208,251	58.1
March 1, 2005	10,441,374	12,911,237	2,469,863	80.9	3,291,315	75.0
March 1, 2006	11,094,694	14,046,302	2,951,608	79.0	3,622,566	81.5
March 1, 2007	12,221,252	14,829,791	2,608,539	82.4	3,854,169	67.7
March 1, 2008	12,422,133	15,869,358	3,447,225	78.3	4,136,517	83.3
March 1, 2009	10,338,427	17,219,930	6,881,503	60.0	4,364,363	157.7
March 1, 2010	13,169,377	20,442,913	7,273,536	64.4	4,468,181	162.8
March 1, 2011	13,749,726	18,502,026	4,752,300	74.3	4,454,583	106.7
March 1, 2012	14,418,382	20,657,993	6,239,611	69.8	4,286,564	145.6
L.D.O. PLAN:						
January 1, 2003	2,538,765	2,897,277	358,512	87.6	3,455,827	10.4
January 1, 2004	2,688,394	3,126,784	438,390	86.0	3,609,077	12.1
January 1, 2005	2,880,347	3,550,762	670,415	81.1	3,373,897	19.9
January 1, 2006	3,103,262	3,772,488	669,226	82.3	3,324,570	20.1
January 1, 2007	3,401,689	3,935,324	533,635	86.4	3,468,462	15.4
January 1, 2008	3,657,703	4,188,039	530,336	87.3	3,500,821	15.1
January 1, 2009	3,369,816	4,432,975	1,063,159	76.0	3,576,029	29.7
January 1, 2010	3,656,704	4,718,617	1,061,913	77.5	3,446,844	30.8
January 1, 2011	3,713,830	5,182,033	1,468,203	71.7	3,450,630	42.5
January 1, 2012	3,763,704	5,615,834	1,852,130	67.0	3,543,094	52.3

Schedule of Funding Progress of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority...*continued*

OTHER POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2012, 2010 AND 2008

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL)	(3) UNFUNDED AAL (UAAL)	(4) FUNDED RATIO	(5) COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL
			(2) MINUS (1)	(1) DIVIDED BY (2)		(3) DIVIDED BY (5)
December 31, 2008	$ -	$ 1,981,264	$ 1,981,264	0.0 %	$ 16,639,010	11.9 %
December 31, 2010	-	1,966,951	1,966,951	0.0	16,305,706	12.1
December 31, 2012	-	2,130,447	2,130,447	0.0	17,170,992	12.4

The Steamship Authority

The Steamship Authority

STEAMSHIPAUTHORITY.COM

P.O. Box 284, Woods Hole, MA 02543